

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended March 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 0-18492

TEAMSTAFF, INC.  
-----

(Exact name of registrant as specified in its charter)

NEW JERSEY

(State or other jurisdiction of  
incorporation or organization)

22-1899798

(I.R.S. Employer  
Identification No.)

300 ATRIUM DRIVE, SOMERSET, NEW JERSEY  
(Address of principal executive offices)

08873  
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (732) 748-1700

Indicate by check mark whether the Registrant (1) has filed all reports  
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes X            No

Indicate by check mark whether the Registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act)

Yes            No X

15,709,874 shares of Common Stock, par value \$.001 per share, were outstanding  
as of May 7, 2003.

TEAMSTAFF, INC. AND SUBSIDIARIES

FORM 10-Q

MARCH 31, 2003

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## TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
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	MARCH 31, 2003	SEPTEMBER 30, 2002
	----- (unaudited)	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,517,000	\$ 12,455,000
Restricted cash	129,000	129,000
Accounts receivable, net of allowance for doubtful accounts of \$243,000 and \$262,000 at March 31, 2003 and September 30, 2002	17,007,000	24,569,000
Deferred tax asset	--	1,791,000
Prepaid workers' compensation	3,432,000	2,341,000
Other current assets	3,023,000	2,500,000
	-----	-----
Total current assets	30,108,000	43,785,000
	-----	-----
EQUIPMENT AND IMPROVEMENTS:		
Furniture and equipment	3,351,000	3,321,000
Computer equipment	2,500,000	2,411,000
Leasehold improvements	391,000	358,000
	-----	-----
	6,242,000	6,090,000
	-----	-----
Less accumulated depreciation and amortization	(4,679,000)	(4,289,000)
	-----	-----
	1,563,000	1,801,000
	-----	-----
DEFERRED TAX ASSET	11,163,000	6,680,000
	-----	-----
AMORTIZED INTANGIBLE ASSETS, net of accumulated amortization of \$1,256,000 and \$822,000 at March 31, 2003 and September 30, 2002	2,677,000	2,375,000
INDEFINITE LIFE INTANGIBLE ASSETS	5,409,000	11,109,000
GOODWILL	7,100,000	27,167,000
OTHER ASSETS	988,000	1,049,000
	-----	-----
Total Assets	\$ 59,008,000	\$ 93,966,000
	=====	=====

The accompanying notes to consolidated financial statements  
are an integral part of these consolidated balance sheets.

## TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(PAGE 2 OF 2)

	MARCH 31, 2003	SEPTEMBER 30, 2002
	----- (unaudited)	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 56,000	\$ 59,000
Accounts payable	1,880,000	4,252,000
Accrued payroll	13,122,000	17,034,000
Accrued expenses and other current liabilities	4,056,000	6,464,000
	-----	-----
Total current liabilities	19,114,000	27,809,000
	-----	-----
LONG-TERM DEBT, net of current portion	127,000	147,000
ACCRUED PENSION LIABILITY	1,559,000	1,271,000
	-----	-----
Total liabilities	20,800,000	29,227,000
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$.10 par value; authorized 5,000,000 shares; 0 issued and outstanding	--	--
Common Stock, \$.001 par value; authorized 40,000,000 shares; issued 16,256,642 and 16,229,142; outstanding 15,709,874 and 15,906,886	16,000	16,000
Additional paid-in capital	65,279,000	65,200,000
Retained (deficit) earnings	(24,559,000)	1,313,000
Accumulated comprehensive losses	(205,000)	(142,000)
Treasury stock, 546,768 and 330,256 shares at cost	(2,323,000)	(1,648,000)
	-----	-----
Total shareholders' equity	38,208,000	64,739,000
	-----	-----
Total liabilities and shareholders' liabilities	\$ 59,008,000	\$ 93,966,000
	=====	=====

The accompanying notes to consolidated financial statements  
are an integral part of these consolidated balance sheets.

## TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(UNAUDITED)

	For the three months ended March 31,	
	2003	2002 As Restated
REVENUES	\$ 37,947,000	\$ 45,028,000
DIRECT EXPENSES	32,833,000	37,514,000
	-----	-----
Gross profit	5,114,000	7,514,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,783,000	6,838,000
GOODWILL IMPAIRMENT WRITE DOWN	20,396,000	--
INTANGIBLE IMPAIRMENT WRITE DOWN	5,700,000	--
DEPRECIATION AND AMORTIZATION	318,000	289,000
	-----	-----
Income (loss) from operations	(29,083,000)	387,000
	-----	-----
OTHER INCOME (EXPENSE):		
Interest income	132,000	274,000
Interest expense	(104,000)	(19,000)
	-----	-----
	28,000	255,000
	-----	-----
Income (loss) before income taxes	(29,055,000)	642,000
INCOME TAX BENEFIT (EXPENSE)	3,098,000	(198,000)
	-----	-----
Net income (loss)	(25,957,000)	444,000
OTHER COMPREHENSIVE INCOME (EXPENSE):		
Minimum pension liability adjustment, net of tax	5,000	(20,000)
	-----	-----
COMPREHENSIVE INCOME (LOSS)	\$ (25,952,000)	\$ 424,000
	=====	=====
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED	\$ (1.65)	\$ 0.03
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	15,755,702	16,067,679
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING - DILUTED	15,755,702	16,201,497
	=====	=====

The accompanying notes to consolidated financial statements  
are an integral part of these consolidated statements.

## TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(UNAUDITED)

	For the six months ended	
	March 31,	
	2003	2002
		As Restated
	-----	-----
REVENUES	\$ 80,318,000	\$ 89,223,000
DIRECT EXPENSES	68,215,000	73,735,000
	-----	-----
Gross profit	12,103,000	15,488,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	14,474,000	13,708,000
GOODWILL IMPAIRMENT WRITE DOWN	20,396,000	--
INTANGIBLE IMPAIRMENT WRITE DOWN	5,700,000	--
DEPRECIATION AND AMORTIZATION	658,000	691,000
	-----	-----
Income (loss) from operations	(29,125,000)	1,089,000
	-----	-----
OTHER INCOME (EXPENSE):		
Interest income	327,000	588,000
Interest expense	(170,000)	(32,000)
	-----	-----
	157,000	556,000
	-----	-----
Income (loss) before income taxes	(28,968,000)	1,645,000
INCOME TAX BENEFIT (EXPENSE)	3,096,000	(574,000)
	-----	-----
Net income (loss)	(25,872,000)	1,071,000
OTHER COMPREHENSIVE INCOME (EXPENSE):		
Minimum pension liability adjustment, net of tax	(63,000)	(40,000)
	-----	-----
COMPREHENSIVE INCOME (LOSS)	\$ (25,935,000)	\$ 1,031,000
	=====	=====
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED	\$ (1.64)	\$ 0.07
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	15,772,550	16,069,031
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING - DILUTED	15,772,550	16,265,240
	=====	=====

The accompanying notes to consolidated financial statements  
are an integral part of these consolidated statements.

TEAMSTAFF, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	For the six months ended March 31,	
	2003	2002 As Restated
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss (income)	\$(25,872,000)	\$ 1,071,000
Adjustments to reconcile net income (loss) to net cash used by operating activities, net of acquired businesses:		
Deferred income taxes	(1,235,000)	300,000
Depreciation and amortization	658,000	663,000
Pension amortization	166,000	29,000
Provision for doubtful accounts	75,000	265,000
Changes in operating assets and liabilities, net of acquired businesses:		
Decrease in accounts receivable	7,487,000	1,671,000
(Increase) in other current assets	(3,071,000)	(3,029,000)
Goodwill impairment write down	20,396,000	--
Intangible impairment write down	5,700,000	--
Increase in other assets	61,000	333,000
(Decrease) in accounts payable, accrued payroll, accrued expenses and other current liabilities	(8,692,000)	(1,876,000)
Increase in pension liability	288,000	134,000
	-----	-----
Net cash (used in) operating activities	(4,039,000)	(439,000)
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of equipment, leasehold improvements and software	(888,000)	(1,160,000)
Acquisition of businesses, net of cash acquired	--	(758,000)
Earn out provision on prior acquisition*	(250,000)	--
	-----	-----
Net cash (used in) investing activities	(1,138,000)	(1,918,000)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments on capital leases obligations	(23,000)	(25,000)
Net proceeds from the exercise of stock options and warrants	--	59,000
Repurchase of common shares	(675,000)	(780,000)
Net comprehensive expense on pension	(63,000)	(40,000)
	-----	-----
Net cash (used in) financing activities	(761,000)	(786,000)
	-----	-----
Net (decrease) in cash and cash equivalents	(5,938,000)	(3,143,000)
	-----	-----
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,455,000	13,725,000
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 6,517,000	\$ 10,582,000
	=====	=====
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for-		
Interest	\$ 42,000	\$ 32,000
	=====	=====
Income taxes	\$ 165,000	\$ 779,000
	=====	=====

\*TeamStaff fully settled its earn out obligations resulting from its acquisition of the assets of Corporate Staffing Concepts LLC by agreeing to pay the sum of \$250,000 in cash and to issue 27,500 shares of TeamStaff Common Stock valued at \$79,000.

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

TEAMSTAFF, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(1) ORGANIZATION AND BUSINESS:

TeamStaff, Inc., a New Jersey corporation, with its subsidiaries, provides a broad spectrum of human resource services including professional employer services, payroll processing, human resource administration and placement of temporary and permanent employees. TeamStaff has regional offices in Somerset, New Jersey; Houston, Texas; Northampton, Massachusetts; and Clearwater and Boca Raton, Florida and sales service centers in New York, New York; Houston, Texas; Boca Raton and Clearwater, Florida; Woburn and Northampton, Massachusetts; Alpharetta, Georgia; and Somerset, New Jersey.

BASIS OF PRESENTATION AND CHANGE IN REVENUE RECOGNITION POLICY

The financial statements related to the second quarter and six months of fiscal year 2002 contained in these financial statements have been restated to reflect certain adjustments to properly account for TeamStaff's Supplemental Retirement Plan as well as adjusted for a change in the revenue recognition policy. See the discussion below and at Note 6.

TeamStaff accounts for its revenues in accordance with EITF 99-19, Reporting Revenues Gross as a Principal Versus Net as an Agent. TeamStaff's professional employer organization ("PEO") division revenues historically had been derived from its PEO division gross billings, which were based on: (i) the payroll cost of its worksite employees; and (ii) associated payroll taxes, benefit costs, workers' compensation charges and administrative fees. The gross billings are invoiced to clients concurrently with each periodic payroll of its worksite employees. Historically, TeamStaff has included both components of its PEO gross billings in revenues (gross method) due primarily to the assumption of significant contractual rights and obligations and other liabilities TeamStaff assumes as an employer, regardless of whether it actually collects its gross billings. After discussions with Securities and Exchange Commission staff, and with the concurrence of its auditors, TeamStaff has changed its presentation of PEO revenues from the gross method to an approach that presents its revenues net of worksite employee payroll costs (net method) primarily because TeamStaff is not generally responsible for the output and quality of work performed by the worksite employees. This change in accounting method reduced both the revenue and direct costs for the quarter and six months ended March 31, 2003 by \$89,189,000 and \$205,482,000, respectively, but had no effect on gross profit, operating income or net income (loss). For the quarter and six months ended March 31, 2002, this method reduced both revenue and direct costs by \$116,759,000 and \$238,067,000, respectively, but had no effect on gross profit, operating income or net income (loss). Consistent with this change in revenue recognition policy, TeamStaff's PEO division direct costs do not include the payroll costs of its worksite employees. TeamStaff's PEO division direct costs associated with its revenue generating activities are comprised of all other costs related to its worksite employees, such as the employer portion of payroll-related taxes, employee benefit plan premiums and contributions and workers' compensation insurance premiums. All prior period financial information has been adjusted to reflect the new revenue reporting policy. The consolidated financial statements included herein have been prepared by TeamStaff, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although TeamStaff believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TeamStaff's latest annual report on Form 10-K. This financial information reflects, in the opinion of management, all adjustments necessary (consisting only of normal recurring adjustments) to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

The accompanying consolidated financial statements include those of TeamStaff Inc., and its wholly owned subsidiaries. The results of operations of acquired companies have been included in the consolidated financial statements from the



date of acquisition. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

(2) SIGNIFICANT ACCOUNTING POLICIES:

RECENTLY ADOPTED ACCOUNTING STANDARDS:

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and establishes a single accounting model for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. During the quarter and six months ended March 31, 2003, SFAS No. 144 has had no impact on TeamStaff's consolidated financial statements.

On May 1, 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 is effective for the TeamStaff's fiscal year beginning October 1, 2002. During the quarter and 6 months ended March 31, 2003, SFAS No. 145 has had no impact on TeamStaff's consolidated financial statements.

On July 30, 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), that is applicable to exit or disposal activities initiated after December 31, 2002. This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This standard does not apply where SFAS 144 is applicable. Currently this standard has not had an impact on TeamStaff's consolidated financial statements.

On December 31, 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"), that is applicable to financial statements issued for fiscal years ending after December 15, 2002. In addition, interim disclosure provisions are applicable for financial statements issued for interim periods beginning after December 15, 2002. This standard amends SFAS 123 and provides guidance to companies electing to voluntarily change to the fair value method of accounting for stock-based compensation. In addition, this standard amends SFAS 123 to require more prominent and more frequent disclosures in financial statements regarding the effects of stock-based compensation. TeamStaff has implemented the additional disclosure requirements under SFAS 148 beginning in the second fiscal quarter commencing January 1, 2003.

At March 31, 2003, TeamStaff has two stock-based employee compensation plans, which are described more fully in TeamStaff's latest annual report on Form 10-K. TeamStaff accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, as amended, to stock-based employee compensation.

	3 MONTHS ENDED MARCH 31 -----		6 MONTHS ENDED MARCH 31 -----	
	2003 -----	2002 -----	2003 -----	2002 -----
Net income, as reported	\$ (25,957,000)	\$ 444,000	\$ (25,872,000)	\$ 1,071,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(127,000)	(163,000)	(247,000)	(325,000)
Pro forma net income	\$ (26,084,000)	\$ 281,000	\$ (26,119,000)	\$ 746,000
Earnings per share:				
Basic & diluted-as reported	\$ (1.65)	\$ 0.03	\$ (1.64)	\$ 0.07
Basic & diluted-pro forma	\$ (1.66)	\$ 0.02	\$ (1.66)	\$ 0.05

In accordance with Statement of Financial Accounting Standards No. 123, the fair value of option grants is estimated on the date of grant using the Black-Scholes option-pricing model for pro forma footnote purposes with the following assumptions; dividend yield of 0%, risk-free interest rate of 3.10% and 4.16% in fiscal year 2003 and 2002, respectively, expected option life of 4 years, and expected volatility of 74% and 72% in fiscal year 2003 and 2002, respectively.

**EARNINGS PER SHARE:**

Basic earnings per share ("Basic EPS") is calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share ("Diluted EPS") is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period adjusted to reflect potentially dilutive securities.

In accordance with SFAS 128, the following table reconciles net income(loss) and share amounts used to calculate the basic and diluted earnings(loss) per share:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2002 As Restated	2003	2002 As Restated
Numerator:				
Net income (loss)	\$ (25,957,000)	\$ 444,000	\$ (25,872,000)	\$ 1,071,000
Denominator:				
Weighted average number of common shares outstanding- basic	15,755,702	16,067,679	15,772,550	16,069,031
Incremental shares for assumed conversion of stock options/warrants	--	133,818	--	196,209
Weighted average number of common shares outstanding-diluted	15,755,702	16,201,497	15,772,550	16,265,240
Earnings(loss) per share-basic and diluted	\$ (1.65)	\$ 0.03	\$ (1.64)	\$ 0.07

Stock options and warrants outstanding at March 31, 2003 to purchase 979,128 shares of common stock and at March 31, 2002 to purchase 254,581 shares of common stock were not included in the computation of diluted earnings per share as they were antidilutive.

**INCOME TAXES:**

TeamStaff has recorded an \$11,163,000 deferred tax asset at March 31, 2003 and \$8,471,000 at September 30, 2002. This represents management's estimate of the income tax benefits to be realized upon utilization of its net operating losses and tax credits as well as temporary differences between the financial statement and tax basis of certain assets and liabilities, for which management believes utilization to be more likely than not. Management believes TeamStaff's operations can generate sufficient taxable income to realize this deferred tax asset as a result of the past four years of profitability and its ability to generate income in the future.

**PAYROLL TAXES:**

TeamStaff has received notices from the IRS claiming taxes, interest and penalties due related to payroll taxes. Management believes that these notices are the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. TeamStaff operates through 17 subsidiaries, and management believes that the IRS has not correctly identified payments made through certain of the different entities, therefore leading to the notices. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated.

**COMPREHENSIVE INCOME (LOSS):**

TeamStaff has comprehensive losses resulting from its Supplemental Retirement Plan (SERP) (see Note 6). When the SERP obligations were measured at March 31, 2003, the amount of the Projected Benefit Obligation (PBO) exceeded the recorded SERP liability. These changes resulted in comprehensive income net of tax for the quarter ended March 31, 2003 of \$5,000 and a comprehensive loss for the six months ended March 31, 2003 of \$(63,000). The removal of the former Chief Financial Officer from his duties as such (see Note 5) may have caused his benefits under the SERP to become fully vested. TeamStaff has provided for this vesting in its pension accounting calculations. The Board has determined not to retain the former Chief Financial Officer in TeamStaff's employ beyond the September 30, 2003 expiration of his current employment agreement. Because it is unlikely that the former Chief Financial Officer will remain in TeamStaff's employ beyond September 30, 2003, TeamStaff has accounted for the former Chief Financial Officer's portion of the SERP under curtailment accounting. No other sources of comprehensive gains or losses occurred.

#### WORKERS' COMPENSATION:

As of March 22, 2002, TeamStaff's insurance provider is Zurich American Insurance Company (Zurich). The program is managed by Cedar Hill Insurance Agency, Inc. (Cedar Hill), whose duties include underwriting analysis of potential and current clients, loss control services, and other program management services. In addition, TeamStaff's workers' compensation insurance broker, The Hobbs Group, provides claims oversight and also provides certain underwriting and claims management services. This policy covers TeamStaff's corporate employees, the worksite employees co-employed by TeamStaff and its PEO clients, and the temporary employees employed by TeamStaff to fulfill various client-staffing assignments. TeamStaff does not provide workers' compensation to non-employees.

The Zurich program originally covered the period March 22, 2002 through April 1, 2003, inclusive. The program contained a large deductible feature of \$500,000 for each claim, with no maximum liability cap. The premium for the program was paid on a monthly basis based on estimated payroll for the year and is subject to a policy year-end audit, which is expected to be completed prior to the end of our fiscal year end September 30, 2003. The Zurich deductible program was collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account with a third party. The letter of credit for \$4,150,000 was secured through Fleet National Bank (Fleet), as part of TeamStaff's line of credit. In connection with the renewal of this program discussed below, Zurich released this letter of credit. Payments were made to the trust monthly based on projected claims for the year. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses will be made from the trust. Assets in the trust may be adjusted from time to time based on program claims experience. Claims handling services for the program is provided by a third party administrator assigned by Cedar Hill. At March 31, 2003, TeamStaff has a prepaid current asset of \$1,827,000 for the premiums and the prepayments made to the trust.

On March 28, 2003, TeamStaff renewed its workers' compensation program with Zurich for the period from April 1, 2003, through March 31, 2004, inclusive. The new program contains a large deductible feature of \$500,000 for each claim, with a maximum liability cap of the greater of 104.41% of manual premium or \$15,650,000. The premium for the program is paid on a monthly basis based on estimated payroll for the year and is subject to a policy year-end audit. The new program is collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account with a third party. The new letter of credit for \$3.5 million was secured through Fleet National Bank (Fleet), as part of TeamStaff's line of credit. Payments are made to the trust monthly based on projected claims for the year. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses will be made from the trust. Assets in the trust may be adjusted from time to time based on program experience. Claims handling services for the program are provided by GAB Robins, a third party administrator. At March 31, 2003, TeamStaff has a prepaid current asset of \$1,605,000 for the premiums and the prepayments made to the trust.

TeamStaff's primary workers' compensation insurance provider from January 22, 2001 through March 21, 2002, was Continental Assurance (CNA). This policy covered its corporate employees, the worksite employees co-employed by TeamStaff and its PEO clients, and the temporary employees employed by TeamStaff to fulfill various client-staffing assignments.

The CNA policy originally covered the period from January 22, 2001 through January 21, 2002, but was extended to March 21, 2002. It was a large deductible program (\$250,000 for each claim) with a maximum liability cap. The premium for the policy was paid monthly based upon estimated payroll for the year and is subject to a year-end audit by the provider. TeamStaff also maintained a separate policy insuring a portion of the maximum deductible cap, which it may be required to pay if claims exceed a determined number. The policy, including the extension, insures payment of the maximum cap in excess of the first \$2,093,000, which TeamStaff pays, up to \$8,663,000. Once the \$8,663,000 is exceeded, TeamStaff pays 89.5% of paid claims up to \$12,133,000. If the claims and fixed costs

under the policy are less than the amounts TeamStaff paid, plus investment returns thereon, the insurer is contractually obligated to refund the difference to TeamStaff.

As part of the two-month extension, which was negotiated in January 2002, TeamStaff was required to pay \$495,000, which CNA asserted was owed to cover costs for claims incurred during the policy years 1997 - 1999. As previously disclosed, TeamStaff had received a release for those periods from CNA in January 2001, when TeamStaff accepted CNA as its new insurance carrier. TeamStaff has denied CNA's claim and, to date, has received \$224,000 back from the original \$495,000 payment. TeamStaff believes that the remaining funds should be returned as well. Should TeamStaff be unsuccessful in receiving a refund of all monies paid, it will be required to absorb these claims. However, TeamStaff has recorded a liability on its books for the estimated claims for the two-month extension, which exceeds the \$271,000 disputed amount. Accordingly, TeamStaff plans to offset this \$271,000 amount from any monies potentially owed by TeamStaff to CNA. On January 27, 2003, TeamStaff filed a complaint of unfair or deceptive acts or practices in the business of insurance against CNA with the New Jersey Division of Insurance. The New Jersey Division of Insurance referred the matter to the New Jersey Compensation Rating and Inspection Bureau, which is in the process of investigating that complaint.

TeamStaff records in direct expenses a monthly charge based upon its estimate of the year's ultimate fully developed claims plus the fixed costs charged by the insurance carrier to support the program. This estimate is established each quarter based in part upon information provided by TeamStaff's insurers, internal analysis and its insurance broker. TeamStaff's internal analysis includes a quarterly review of open claims and a review of historical claims related to the workers' compensation programs. While management uses available information, including nationwide loss ratios, to estimate ultimate claims, future adjustments may be necessary based on actual claims incurred during the policy period. Since the recorded ultimate expense is based upon a ten-year projection of actual claims payment and the timing of these payments as well as the interest earned on TeamStaff's prepayments, TeamStaff also relies on actuarial tables to estimate its ultimate expense.

TeamStaff's clients are billed at fixed rates, which are determined when the contract is negotiated with the client. The fixed rates include charges for workers' compensation, which are based upon TeamStaff's assessment of the costs of providing workers' compensation to the client. If TeamStaff's costs for workers' compensation for the workers' compensation policy year are greater than the costs that are included in the client's contractual rate, TeamStaff is unable to recover these excess charges from the clients. TeamStaff reserves the right in its contracts to increase the workers' compensation charges on a prospective basis only and may do so when its workers' compensation policy is renewed or when workers' compensation rates are increased by state agencies.

As of March 31, 2003, the adequacy of the workers' compensation reserves was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers which may include loss data for claims incurred during prior policy periods. As disclosed in our Form 10-K for the fiscal year ended September 30, 2002, TeamStaff has encountered difficulties in receiving timely reporting of claims from CNA. In the future, similar problems from our insurance carriers may result in adjustments to our reserves. In addition, these reserves are for claims that have not been sufficiently developed due to their relatively young age, and such variables as timing of payments and investment returns thereon are uncertain or unknown, actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the reserves as deemed appropriate.

NON-GOODWILL RECOGNIZED INTANGIBLES:

The following is a summary of non-goodwill intangibles:

	AS OF MARCH 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net
	-----	-----	-----
Amortized intangible assets			
Software	\$3,204,000	\$ 974,000	\$2,230,000
Pension	729,000	282,000	447,000
	-----	-----	-----
Total	\$3,933,000	\$1,256,000	\$2,677,000
	=====	=====	=====

AS OF SEPTEMBER 30, 2002

	Gross Carrying Amount	Accumulated Amortization	Net
	-----	-----	-----
Amortized intangible assets			
Software	\$2,468,000	\$ 705,000	\$1,763,000
Pension	729,000	117,000	612,000
	-----	-----	-----
Total	\$3,197,000	\$ 822,000	\$2,375,000
	=====	=====	=====

Aggregate Amortization Expense	
For 6 months ended 3/31/03	\$ 434,000
	=====

Estimated Amortization Expense	
For year ended 9/30/03	\$699,000
For year ended 9/30/04	486,000
For year ended 9/30/05	476,000
For year ended 9/30/06	417,000
For year ended 9/30/07	345,000

Indefinite life intangible assets  
(described below):

	As of March 31, 2003	As of September 30, 2002
	-----	-----
Tradenames	\$ 4,209,000	\$ 4,209,000
Wachovia Relationship	1,200,000	6,900,000
	-----	-----
Total	\$ 5,409,000	\$11,109,000
	=====	=====

GOODWILL:

	PEO	Medical Staffing	Total
	-----	-----	-----
Balance as of September 30, 2002	\$ 25,462,000	\$ 1,705,000	\$ 27,167,000
Adjustment to purchase price due to earn out obligation	329,000	--	329,000
Goodwill impairment loss	(20,396,000)	-----	(20,396,000)
	-----	-----	-----
Balance as of March 31, 2003	\$ 5,395,000	\$ 1,705,000	\$ 7,100,000
	=====	=====	=====

IMPAIRMENT OF GOODWILL:

Goodwill is assigned to specific reporting units and, in accordance with SFAS 142, is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value. As of the fiscal quarter ended December 31, 2002, TeamStaff carried a total of \$27,167,000 in goodwill. During the fiscal quarter ended March 31, 2003, TeamStaff determined that the carrying amount of the PEO reporting segment exceeded its fair value, which was estimated based on the present value of expected future cash inflows and the market approach which compares TeamStaff to other comparable entities. The decision to test for impairment was based on a variety of factors, including, but not limited to, the overall downturn in the nation's economy, the relatively recent substantial decrease in the number of TeamStaff PEO worksite employees, the performance of the Wachovia marketing relationship, the reduced valuations of individual PEOs by various market analysts and the associated market downgrade in the PEO industry in general. Accordingly, a goodwill impairment loss of \$20,396,000, as indicated by an independent outside valuation, was recognized in the PEO reporting unit.

IMPAIRMENT OF WACHOVIA RELATIONSHIP INTANGIBLES:

Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually. As part of its acquisition of BrightLane, completed in August, 2001, TeamStaff entered into a two-year, extendable marketing relationship with First Union Corporation (renamed Wachovia). The Wachovia relationship provides TeamStaff with the ability to market its PEO services to Wachovia's small business customers through Wachovia's network of small business

bankers. The relationship has not produced the anticipated number of PEO clients or worksite employees. Although TeamStaff believes that the agreement will be extended beyond August 31, 2003, TeamStaff does not anticipate that the extension will provide it with the ability to market its services to Wachovia's small business customers on an exclusive basis. During the fiscal quarter ended March 31, 2003, TeamStaff determined that, based on

estimated future cash flows, the carrying amount of the Wachovia marketing relationship, which is assigned to TeamStaff's PEO reporting segment, exceeds its fair value by \$5,700,000; accordingly, an impairment loss of that amount, as indicated by an independent outside valuation, was recognized and is included in impairment of intangible assets.

(3) BUSINESS COMBINATIONS:

SETTLEMENT OF CORPORATE STAFFING CONCEPTS EARN OUT OBLIGATION

Effective January 2, 2002, TeamStaff acquired the accounts and related assets of Corporate Staffing Concepts LLC, a PEO entity operating primarily in western Massachusetts and Connecticut, for \$275,000 paid at closing, and stock, which would be paid in connection with an earn out in one year, based upon the number of worksite employees remaining from the accounts being acquired. On January 10, 2003, by mutual agreement, TeamStaff fully settled its earn out obligations to Corporate Staffing Concepts LLC by agreeing to pay the sum of \$250,000 in cash and to issue 27,500 shares of TeamStaff Common Stock, bringing the total purchase price to \$604,475. The additional purchase price as a result of the buyout was recorded as Goodwill.

The following unaudited pro forma information presents a summary of consolidated financial results of operations of TeamStaff and acquired companies as if the acquisition had occurred October 1, 2001, the beginning of the earliest period presented.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2002 As Restated	2003	2002 As Restated
Revenues	\$ 37,947,000	\$ 45,028,000	\$ 80,318,000	\$ 90,323,000
Net Income	(25,957,000)	444,000	(25,872,000)	1,083,000
Earnings per share - basic and diluted	\$ (1.65)	\$ 0.03	\$ (1.64)	\$ 0.07

(4) DEBT:

On April 9, 2002, TeamStaff entered into a revolving loan facility with Fleet National Bank (Fleet). The total outstanding loan amount cannot exceed at any one time the lesser of \$7,000,000 or the sum of 85% of qualified accounts receivable, less an amount reserved by Fleet to support direct debit processing exposure. The annual interest rate is either the Fleet prime rate or LIBOR, at the discretion of TeamStaff, and is currently 4.25%. The facility is collateralized by substantially all of the assets of TeamStaff, including its accounts receivables. The facility is subject to certain covenants including, but not limited to, interest rate coverage of 2.0 to 1.0, total liabilities to tangible net worth ratio of 2.0 to 1.0, and minimum working capital of \$10,000,000.

Effective March 21, 2003, the Company and Fleet agreed to a renewal of the revolving loan facility, which now expires on March 31, 2004. The terms of the facility are substantially as described above, except that the total outstanding loan amount at any one time cannot exceed the lesser of \$6,000,000 or the sum of 85% of the qualified accounts receivable less and amount reserved by Fleet. At March 31, 2003, the sole outstanding amount of the facility represented an outstanding letter of credit in the amount of \$3.5 million issued with respect to TeamStaff's workers' compensation program with Zurich effective April 1, 2003 as described above. TeamStaff is not in compliance with the interest rate coverage covenant as of March 31, 2003 due to the write down of impaired intangible assets. Fleet Bank has granted TeamStaff a waiver for this quarter and has amended the agreement to delete the interest rate coverage covenant and replace it with a minimum earnings before interest expense covenant for future quarters.

(5) STATUS OF CFO:

As previously disclosed, TeamStaff relieved its Chief Financial Officer of his duties as such, and commenced a search for a new Chief Financial Officer. That search is ongoing. The Board has determined not to retain the former Chief Financial Officer in TeamStaff's employ beyond the September 30, 2003 expiration of his current employment agreement with TeamStaff.

Pursuant to a May 22, 2002 severance agreement with the former Chief Financial Officer, in the event that his employment terminates for "good reason," as that term is defined in the agreement, he is provided with certain severance payments and other benefits. As a result of being relieved of his duties, the former Chief Financial Officer may have "good reason" to terminate his employment with TeamStaff and may have claims for the severance payments and benefits provided by the severance agreement. The removal of the Chief Financial Officer from his duties also may have caused his benefits under TeamStaff's SERP to become fully vested and require that assets necessary to fund TeamStaff's SERP obligations be placed in an irrevocable grantor trust. TeamStaff has not yet funded the trust. TeamStaff has provided for full vesting in its pension accounting calculation. Because it is unlikely that the former Chief Financial Officer will remain in TeamStaff's employ beyond September 30, 2003 and likely that he would seek the payments and benefits provided by the severance agreement, TeamStaff has accrued an additional \$860,000 for obligations related to the SERP and his severance agreement.

(6) SUPPLEMENTAL RETIREMENT PLAN:

Effective October 1, 2000, TeamStaff adopted a non-qualified, Supplemental Retirement Plan (SERP) covering certain TeamStaff corporate officers. Under the terms of the SERP, a participant receives a benefit sufficient to provide lump sum annual payments equal to approximately one-third of the participant's base salary on the date the participant becomes a participant. Payment of benefits commences when the participant reaches 65 years of age. The benefit under the SERP is subject to a seven-year vesting schedule (0%, 0%, 20%, 40%, 60%, 80%, 100%), based on the participant's original date of employment with TeamStaff and contingent on the participant's reaching age 55; provided, however, a participant's benefit becomes fully vested upon a change of control, as defined in the SERP, if within two years of the change of control there is a material change in the participant's job title or responsibilities or if the participant's employment is terminated by TeamStaff for any reason other than conviction for theft or embezzlement from TeamStaff. Upon a change of control, as defined in the SERP, assets necessary to fund TeamStaff's SERP obligations are to be placed in an irrevocable grantor trust. Additionally, if a participant retires by means of total disability (as defined in the SERP), the participant's benefit becomes fully vested and benefit payments commence as of the disability retirement date. The SERP does not provide a death benefit. TeamStaff's President and Chief Executive Officer and its former Chief Financial Officer are the only current SERP participants.

SERP participants also are provided with a split dollar life insurance policy, insuring the life of the participant until the participant reaches age 65. Under the terms of an agreement between each participant and TeamStaff, although the participant is the owner of the Policy, each participant has collaterally assigned his Policy to TeamStaff to secure repayment of the premiums through either its cash surrender value or the Policy proceeds. Additionally, pursuant to the agreement, the participant's right to the Policy vests and becomes nonforfeitable in accordance with the same schedule as the SERP and with similar change of control provisions. Upon the participant's 65th birthday (and in certain other circumstances provided by the agreement), TeamStaff will release the collateral assignment of the Policy provided the participant releases TeamStaff from all obligations it may have with respect to the participant (including those under the SERP). Under the agreement, TeamStaff is required to pay all Policy premium costs. However, given the uncertainty of TeamStaff's ability to continue to maintain this payment arrangement in light of certain of the provisions of the Sarbanes-Oxley Act of 2002, TeamStaff has, with the President and Chief Executive Officer's consent, deferred paying Policy premiums on behalf of the Chief Executive Officer. For the first fiscal quarter ended December 31, 2002, TeamStaff paid the Chief Executive Officer a bonus in the amount of the Policy premiums, grossed-up to cover allocable income taxes.

(7) TREASURY STOCK AND OPTIONS:

On July 22, 1999, the Board of Directors authorized the repurchase up to 3% of the outstanding shares of TeamStaff's common stock. On November 19, 2002, the Board of Directors authorized an additional repurchase of up to \$1,000,000 in common stock. Since inception through March 31, 2003, we have repurchased 546,768 shares at an average cost of \$4.25 per share for a total cost of \$2,323,000. These share repurchases are reflected as treasury shares in these financial statements and will eventually be retired. During the quarter ended March 31, 2003, 78,612 shares were purchased at a cost of \$243,000. During the six months ended March 31, 2003, 216,512 shares were purchased at a cost of \$675,000. During the quarter ended March 31, 2003, TeamStaff granted 10,000 options at an average price of \$3.03 per share, 33,015 options expired or were cancelled unexercised and no options were exercised. During the six months ended March 31, 2003, TeamStaff granted 83,000 options at an average price of \$3.00, 68,131 options expired or were cancelled unexercised, and no options were exercised. During the quarter ended March 31, 2003, no warrants were issued or exercised, and 7,142 warrants expired unexercised. During the six months ended March 31, 2003, no warrants were issued or exercised, and 58,856 warrants expired unexercised.





(8) SEGMENT REPORTING:

TeamStaff operates three different lines of business: professional employer organization (PEO), medical staffing and payroll services.

The PEO segment provides services such as payroll processing, personnel administration, benefits administration, workers' compensation administration and tax filing services to small- and medium-sized businesses. Essentially, in this business segment, TeamStaff provides services that function as the human resource department for small- to medium-sized companies and TeamStaff becomes a co-employer of its clients' employees.

TeamStaff currently provides temporary and permanent medical staffing for medical imaging professionals and nurses with hospitals, clinics and therapy centers. Medical staffing enables clients to attain management and productivity goals by matching highly trained professionals and technical personnel to specific project requirements.

Through its payroll services business segment, TeamStaff provides basic payroll services to its clients, more than 75% of which are in the construction industry. Services provided include the preparation of payroll checks, filing of payroll taxes, government reports, W-2s, remote processing directly from the clients' offices and certified payrolls.

All corporate expenses, interest expense, as well as depreciation on corporate assets and miscellaneous charges, are reflected in a separate unit called Corporate.

The following tables present the condensed financial results for the three and six months ended March 31, 2003 and 2002 for each of TeamStaff's segments:

FOR THE THREE MONTHS ENDED MARCH 31, 2003 ----	PROFESSIONAL EMPLOYER SERVICES -----	MEDICAL STAFFING -----	PAYROLL SERVICES -----	CORPORATE -----	CONSOLIDATED -----
Revenues	\$ 21,571,000	\$ 15,242,000	\$ 1,134,000	\$ 0	\$ 37,947,000
Income/(loss) before income taxes	(26,942,000)	1,176,000	321,000	(3,610,000)	(29,055,000)
2002 AS RESTATED					
Revenues	\$ 25,507,000	\$ 18,427,000	\$ 1,094,000	\$ 0	\$ 45,028,000
Income/(loss) before income taxes	210,000	2,238,000	396,000	(2,202,000)	642,000
FOR THE SIX MONTHS ENDED MARCH 31, 2003 ----	PROFESSIONAL EMPLOYER SERVICES -----	MEDICAL STAFFING -----	PAYROLL SERVICES -----	CORPORATE -----	CONSOLIDATED -----
Revenues	\$ 45,486,000	\$ 32,274,000	\$ 2,558,000	\$ 0	\$ 80,318,000
Income/(loss) before income taxes	(26,528,000)	2,316,000	905,000	(5,661,000)	(28,968,000)
2002 AS RESTATED					
Revenues	\$ 48,439,000	\$ 38,244,000	\$ 2,540,000	\$ 0	\$ 89,223,000
Income/(loss) before income taxes	244,000	4,742,000	1,117,000	(4,458,000)	1,645,000

TeamStaff has no revenue derived from outside the United States.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## FORWARD LOOKING AND CAUTIONARY STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"). TeamStaff, Inc. desires to avail itself of certain "safe harbor" provisions of the 1995 Reform Act and is therefore including this special note to enable TeamStaff to do so. Forward-looking statements included in this report involve known and unknown risks, uncertainties, and other factors which could cause TeamStaff's actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Such future results are management's best estimates based upon current conditions and the most recent results of operations. These risks include, but are not limited to, risks associated with risks undertaken in connection with acquisitions, risks from potential workers' compensation claims and required payments, risks from employer/employee suits such as discrimination or wrongful termination, risks associated with payroll and employee related taxes which may require unanticipated payments by TeamStaff, liabilities associated with TeamStaff's status under certain federal and state employment laws as a co-employer, effects of competition, TeamStaff's ability to implement its internet based business and technological changes and dependence upon key personnel. These and other risks are stated in detail in our Report on Form 10-K for the fiscal year ended September 30, 2002 and other reports and filings made by TeamStaff.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TeamStaff believes the accounting policies below represent its critical accounting policies due to the significance or estimation process involved in each. See Note 2 of TeamStaff's 2002 annual report on Form 10-K for a detailed discussion on the application of these and other accounting policies.

The discussion contained in this Item 2 reflects a restatement of certain components of our financial statements related to our Supplemental Retirement Plan for the quarter and six months ended March 31, 2002, as well as a change in the revenue recognition policy. See discussion below and Note 6 in the financial statements.

## REVENUE RECOGNITION

TeamStaff operates three different lines of business from which it derives substantially all of its revenue: professional employer organization (PEO), temporary staffing and payroll services.

TeamStaff accounts for its revenues in accordance with EITF 99-19, Reporting Revenues Gross as a Principal Versus Net as an Agent. TeamStaff's professional employer organization division revenues historically had been derived from its PEO division gross billings, which were based on: (i) the payroll cost of its worksite employees; and (ii) associated payroll taxes, benefit costs, workers' compensation charges and administrative fees. The gross billings are invoiced to clients concurrently with each periodic payroll of its worksite employees. Historically, TeamStaff has included both components of its PEO gross billings in revenues (gross method) due primarily to the assumption of significant contractual rights and obligations and other liabilities TeamStaff assumes as an employer, regardless of whether it actually collects its gross billings. After discussions with Securities and Exchange Commission staff, and with the concurrence of its auditors, TeamStaff has determined to change its presentation of PEO revenues from the gross method to an approach that presents its revenues net of worksite employee payroll costs (net method) primarily because TeamStaff is not generally responsible for the output and quality of work performed by the worksite employees. This change in accounting method reduced both the revenue and direct costs for the quarter and six months ended March 31, 2003 by \$89,189,000 and \$205,482,000, respectively, but had no effect on gross profit, operating income or net income (loss). For the quarter and six months ended March 31, 2002, this method reduced both revenue and direct costs by \$116,759,000 and \$238,067,000, respectively, but had no effect on gross profit, operating income or net income (loss). Consistent with this change in revenue recognition policy, TeamStaff's PEO division direct costs do not include the payroll costs of its worksite employees. TeamStaff's PEO division direct costs associated with its revenue generating activities are comprised of all other costs related to its worksite employees, such as the employer portion of payroll-related taxes, employee benefit plan premiums and contributions and workers' compensation insurance premiums. TeamStaff is in the process of amending prior year reports to reflect this change in accounting methodology.

TeamStaff negotiates the pricing for its various services on a client-by-client basis based on factors such as market conditions, client needs and services requested, the client's workers' compensation experience, the type of client business and the required resources to service the account, among other factors. Because the pricing is negotiated separately with each client and vary according to circumstances, TeamStaff's revenue, and therefore its gross margin, will fluctuate based on its client mix.

The temporary staffing revenue is recognized as service is rendered. TeamStaff bills its clients based on an hourly rate. The hourly rate is intended to cover TeamStaff's direct labor costs of the temporary employees, plus an estimate to cover overhead expenses and a profit margin. Additionally included in revenue related to temporary staffing are commissions from permanent placements. Commissions from permanent placements result from the successful placement of a temporary employee to a customer's workforce as a permanent employee.

In accordance with Emerging Issues Task Force (EITF) No. 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent," TeamStaff recognizes all amounts billed to its temporary staffing customers as gross revenue because, among other things, TeamStaff is the primary obligor in the temporary staffing arrangement, TeamStaff has pricing latitude, TeamStaff selects temporary employees for a given assignment from a broad pool of individuals, TeamStaff is at risk for the payment of its direct costs, whether or not TeamStaff's customers pay TeamStaff on a timely basis or at all, and TeamStaff assumes a significant amount of other risks and liabilities as an employer of its temporary employees, and therefore, is deemed to be a principal in regard to these services. TeamStaff also recognizes as gross revenue and as unbilled receivables, on an accrual basis, any such amounts that relate to services performed by temporary employees which have not yet been billed to the customer as of the end of the accounting period.

The payroll services revenue is recognized as service is rendered and consists primarily of administrative service fees charged to clients for the processing of paychecks as well as preparing quarterly and annual payroll related reports.

Direct costs of services are reflected in TeamStaff's Statement of Operations as "direct expenses" and are reflective of the type of revenue being generated. PEO direct costs of revenue include employment related taxes, costs of health and welfare benefit plans and workers' compensation insurance costs. Direct costs of the temporary staffing business include wages, employment related taxes and reimbursable expenses. Payroll services' direct costs includes salaries and supplies associated with the processing of the payroll service.

#### GOODWILL AND INTANGIBLE ASSETS

Beginning October 1, 2001, with the adoption of accounting standard (SFAS 142), the Company no longer amortizes goodwill or indefinite life intangible assets, but continues to amortize software at its expected useful life. TeamStaff continues to review its goodwill and other intangible assets for possible impairment or loss of value at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value.

During the fiscal quarter ended March 31, 2003, TeamStaff determined that the carrying amount of the PEO reporting segment exceeded its fair value, which was estimated based on the present value of expected future cash inflows and the market approach which compares TeamStaff to other comparable entities. This determination was based on a variety of factors, including, but not limited to, the overall downturn in the nation's economy, the relatively recent substantial decrease in the number of TeamStaff PEO worksite employees, the poor performance of the Wachovia marketing relationship, the reduced valuations of individual PEOs by various market analysts and the associated market downgrade in the PEO industry generally. Accordingly, a goodwill impairment loss of \$20,396,000, as indicated by an independent outside valuation, was recognized in the PEO reporting unit.

As part of its acquisition of BrightLane, completed in August, 2001, TeamStaff entered into a two-year, extendable marketing relationship with First Union Corporation (renamed Wachovia). The Wachovia relationship provides TeamStaff with the ability to market its PEO services to Wachovia's small business customers through Wachovia's network of small business bankers. The relationship has not produced the anticipated number of PEO clients or worksite employees. Although TeamStaff believes that the agreement will be extended beyond August 31, 2003, TeamStaff does not anticipate that the extension will provide it with the ability to market its services to Wachovia's small business customers on an exclusive basis. During the fiscal quarter ended March 31, 2003, TeamStaff determined that, based on estimated future cash flows, the carrying amount of the Wachovia marketing relationship, which is assigned to TeamStaff's

PEO reporting segment, exceeds its fair value by \$5,700,000; accordingly, an impairment loss of that amount, as indicated by an independent outside valuation, was recognized.

#### WORKERS' COMPENSATION

As of March 22, 2002, TeamStaff's insurance provider is Zurich American Insurance Company (Zurich). The program is managed by Cedar Hill Insurance Agency, Inc (Cedar Hill), whose duties include underwriting analysis of potential and current clients, loss control services, and other program management services. In addition, TeamStaff's workers' compensation insurance broker, The Hobbs Group, provides claims oversight and also provides certain underwriting and claims management services. This policy covers TeamStaff's corporate employees, the worksite employees co-employed by TeamStaff and its PEO clients, and the temporary employees employed by TeamStaff to fulfill various client-staffing assignments. TeamStaff does not provide workers' compensation to non-employees.

The Zurich program originally covered the period March 22, 2002 through April 1, 2003, inclusive. The program contained a large deductible feature of \$500,000 for each claim, with no maximum liability cap. The premium for the program was paid on a monthly basis based on estimated payroll for the year and is subject to a policy year-end audit, which is expected to be completed prior to the end of our fiscal year end September 30, 2003. The Zurich deductible program was collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account with a third party. The letter of credit for \$4,150,000 was secured through Fleet National Bank (Fleet), as part of TeamStaff's line of credit. In connection with the renewal of this program discussed below, Zurich released this letter of credit. Payments were made to the trust monthly based on projected claims for the year. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses will be made from the trust. Assets in the trust may be adjusted from time to time based on program claims experience. Claims handling services for the program is provided by a third party administrator assigned by Cedar Hill. At March 31, 2003, TeamStaff has a prepaid current asset of \$1,827,000 for the premiums and the prepayments made to the trust.

On March 28, 2003, TeamStaff renewed its workers' compensation program with Zurich for the period from April 1, 2003, through March 31, 2004, inclusive. The new program contains a large deductible feature of \$500,000 for each claim, with a maximum liability cap of the greater of 104.41% of manual premium or \$15,650,000. The premium for the program is paid on a monthly basis based on estimated payroll for the year and is subject to a policy year-end audit. The new program is collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account with a third party. The new letter of credit for \$3.5 million was secured through Fleet National Bank (Fleet), as part of TeamStaff's line of credit. Payments are made to the trust monthly based on projected claims for the year. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses will be made from the trust. Assets in the trust may be adjusted from time to time based on program experience. Claims handling services for the program are provided by GAB Robins, a third party administrator. At March 31, 2003, TeamStaff has a prepaid current asset of \$1,605,000 for the premiums and the prepayments made to the trust.

TeamStaff's primary workers' compensation insurance provider from January 22, 2001 through March 21, 2002, was Continental Assurance (CNA). This policy covered its corporate employees, the worksite employees co-employed by TeamStaff and its PEO clients, and the temporary employees employed by TeamStaff to fulfill various client-staffing assignments.

The CNA policy originally covered the period from January 22, 2001 through January 21, 2002, but was extended to March 21, 2002. It was a large deductible program (\$250,000 for each claim) with a maximum liability cap. The premium for the policy was paid monthly based upon estimated payroll for the year and is subject to a year-end audit by the provider. TeamStaff also maintained a separate policy insuring a portion of the maximum deductible cap, which it may be required to pay if claims exceed a determined number. The policy, including the extension, insures payment of the maximum cap in excess of the first \$2,093,000, which TeamStaff pays, up to \$8,663,000. Once the \$8,663,000 is exceeded, TeamStaff pays 89.5% of paid claims up to \$12,133,000. If the claims and fixed costs under the policy are less than the amounts TeamStaff paid, plus investment returns thereon, the insurer is contractually obligated to refund the difference to TeamStaff.

As part of the two-month extension, which was negotiated in January 2002, TeamStaff was required to pay \$495,000, which CNA asserted was owed to cover costs for claims incurred during the policy years 1997 - 1999. As previously disclosed, TeamStaff had received a release for those periods from CNA in January 2001, when TeamStaff accepted CNA as its new insurance carrier. TeamStaff has denied CNA's claim and, to date, has received \$224,000 back from the original \$495,000 payment. TeamStaff believes that the remaining funds should be returned as well. Should TeamStaff be unsuccessful in receiving a refund of all monies paid, it will be required to absorb

these claims. However, TeamStaff has recorded a liability on its books for the estimated claims for the two-month extension, which exceeds the \$271,000 disputed amount. Accordingly, TeamStaff plans to offset this \$271,000 amount from any monies potentially owed by TeamStaff to CNA. On January 27, 2003, TeamStaff filed a complaint of unfair or deceptive acts or practices in the business of insurance against CNA with the New Jersey Division of Insurance. The New Jersey Division of Insurance referred the matter to the New Jersey Compensation Rating and Inspection Bureau, which is in the process of investigating that complaint.

TeamStaff records in direct expenses a monthly charge based upon its estimate of the year's ultimate fully developed claims plus the fixed costs charged by the insurance carrier to support the program. This estimate is established each quarter based in part upon information provided by TeamStaff's insurers, internal analysis and its insurance broker. TeamStaff's internal analysis includes a quarterly review of open claims and a review of historical claims related to the workers' compensation programs. While management uses available information, including nationwide loss ratios, to estimate ultimate claims, future adjustments may be necessary based on actual claims incurred during the policy period. Since the recorded ultimate expense is based upon a ten-year projection of actual claims payment and the timing of these payments as well as the interest earned on TeamStaff's prepayments, TeamStaff also relies on actuarial tables to estimate its ultimate expense.

TeamStaff's clients are billed at fixed rates, which are determined when the contract is negotiated with the client. The fixed rates include charges for workers' compensation, which are based upon TeamStaff's assessment of the costs of providing workers' compensation to the client. If TeamStaff's costs for workers' compensation for the workers' compensation policy year are greater than the costs that are included in the client's contractual rate, TeamStaff is unable to recover these excess charges from the clients. TeamStaff reserves the right in its contracts to increase the workers' compensation charges on a prospective basis only and may do so when its workers' compensation policy is renewed or when workers' compensation rates are increased by state agencies.

As of March 31, 2003, the adequacy of the workers' compensation reserves was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers which may include loss data for claims incurred during prior policy periods. As disclosed in our Form 10-K for the fiscal year ended September 30, 2002, TeamStaff has encountered difficulties in receiving timely reporting of claims from CNA. In the future, similar problems from our insurance carriers may result in adjustments to our reserves. In addition, these reserves are for claims that have not been sufficiently developed due to their relatively young age, and such variables as timing of payments and investment returns thereon are uncertain or unknown, actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the reserves as deemed appropriate.

#### DEFERRED TAXES

TeamStaff accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the balance sheet when it is determined that it is more likely than not that the asset will be realized.

#### RESULTS OF OPERATIONS

The results below reflect a restatement of the statement of income and comprehensive income for March 31, 2002 fiscal quarter and year to date and an adjustment to TeamStaff's revenue recognition policy with respect to its PEO division. The restatement was also required in order to properly reflect certain footnote disclosures and adjustments regarding the Company's Supplemental Retirement Plan adopted effective as of October 1, 2000.

TeamStaff's revenues for the three months ended March 31, 2003 and 2002 were \$37,947,000 and \$45,028,000, respectively, which represents a decrease of \$7,081,000, or 15.7%, over the prior year fiscal quarter. Decreased revenues in TeamStaff's Medical Staffing division accounted for approximately \$3,200,000 less revenue, while our PEO division accounted for approximately \$3,900,000 less revenue. TeamStaff's Medical Staffing business, TeamStaff Rx, has, on a percentage of revenue basis, been our fastest growing business segment over the last few years. However, in comparison to the second fiscal quarter and first six months of 2002, revenue for this segment decreased by 17% and 16%, respectively. This decrease has partially been attributed to our closing of the division's Houston, Texas office in

April 2002. This office was primarily involved in staffing per diem nurses in the local Houston market. Our Medical Staffing business places predominantly long term temporary medical personnel in assignments that average at least thirteen weeks compared to per diem staffing, which are typically staffed on an hourly or daily basis. The overhead necessary to support per diem nursing did not justify keeping this business segment in operation. In addition, due to the increased number of temporary medical staffing companies that have appeared over the last few years, our Medical Staffing business segment is facing increased competition from a number of companies. While many of these companies had traditionally concentrated in the nursing market, they have expanded their operations into markets, such as imaging personnel staffing, where TeamStaff Rx has concentrated, and which previously were substantially less competitive. Also contributing to the decrease in revenues is the recent practice among hospitals of forcing overtime to permanent staff and replacing temporary positions with permanent hires. The PEO division's reduced revenue is being affected in part by the program, begun in the second fiscal quarter of 2002, to review the profitability of all PEO clients and effect price increases where appropriate to meet a targeted level of profitability. The declining economic conditions in the United States also contributed to a reduced workforce for our clients of approximately 4,000 worksite employees.

TeamStaff's revenues for the six months ended March 31, 2003 and 2002 were \$80,318,000 and \$89,223,000, respectively, which represents a decrease of \$8,905,000, or 10.0%. Decreased revenues in TeamStaff's Medical Staffing division accounted for approximately \$6,000,000 less revenue while our PEO division accounted for approximately \$3,000,000 less revenue. The reduced Medical Staffing division and PEO revenue is for the same reasons as stated above. This loss in PEO business was somewhat offset by revenue generated by our acquisition of the assets of Corporate Staffing Concepts in January of 2002, which resulted in increased PEO division revenue of \$1,100,000 for the six months ended March 31, 2003 compared to the same period last year.

Direct expenses were \$32,833,000 for the three months ended March 31, 2003 and \$37,514,000 for the comparable quarter last year, representing a decrease of \$4,681,000, or 12.5%. This decrease is a direct result of the lower consolidated revenues of TeamStaff. As a percentage of revenue, direct expenses for the three months ended March 31, 2003 and 2002 were 86.5% and 83.3%, respectively. This increase, as a percentage of revenue, results from the impact of higher state unemployment tax (SUTA) rates effective as of January 1, 2003, of \$503,000, and increased workers' compensation reserves of \$612,000. As poor economic conditions resulted in a reduction in workforce for certain of our PEO clients over the past few years, an increased number of worksite employee unemployment claims were filed. Since SUTA rates are based on an employer's unemployment claims experience, in those states that recognize a PEO as the employer of record for unemployment compensation purposes, our SUTA rates increased as more unemployment claims were filed. Workers' compensation claims development was unusually high for the quarter, resulting in the \$600,000 increase in workers' compensation loss reserves. For the six months ended March 31, 2003 and 2002, direct expenses were \$68,215,000 and \$73,735,000, respectively, representing a decrease of \$5,520,000, or 7.5%. As a percentage of revenue, direct expenses for the six months ended March 31, 2003 and 2002 were 84.9% and 82.6%, respectively. This increase in direct expenses as a percentage of revenue is due primarily to the reasons stated above.

Gross profits were \$5,114,000 and \$7,514,000 for the quarters ended March 31, 2003 and 2002, respectively, a decrease of \$2,400,000, or 31.9%. This decrease is attributed to the reduction in our Medical Staffing and PEO business discussed above. Gross profits, as a percentage of revenue, were 13.5% and 16.7% for the quarters ended March 31, 2003 and 2002, respectively. For the six months ended March 31, 2002 and 2003, gross profits were \$12,103,000 and \$15,488,000, respectively, representing a decrease of \$3,385,000, or 21.9%.

Selling, general and administrative (SG&A) expenses for the quarters ended March 31, 2003 and 2002 were \$7,783,000 and \$6,838,000, respectively, representing an increase of \$945,000, or 13.8%. While increases in the SG&A costs for our Medical Staffing division were necessitated by the increased competition, explained above, these increases were more than offset in cost-cutting reductions in our PEO division and corporate overhead. The overall increase in SG&A is attributable to an accrual for potential severance agreement obligations related to TeamStaff's former Chief Financial Officer and Teamstaff's obligations to its President and Chief Executive Officer and its former Chief Financial Officer under its SERP. For the six months ended March 31, 2003 and 2002, SG&A expenses were \$14,474,000 and \$13,708,000, respectively, representing an increase of \$766,000, or 5.6%, for the same reasons stated above.

Goodwill impairment write down for the quarter and six months ended March 31, 2003 is \$20,396,000. Intangible impairment write down for the quarter and six months ended March 31, 2002 is \$5,700,000. The decision to test for impairment was based on a variety of factors, including, but not limited to, the overall downturn in the nation's economy, the relatively recent substantial decrease in the number of PEO worksite employees, the poor performance of the marketing agreement established at the time of the BrightLane acquisition, the reduced valuations of individual PEOs by various market analysts and the associated market downgrade in the PEO industry in general.



Depreciation and amortization for the quarter ended March 31, 2003 increased by \$29,000, compared to the same quarter last year, from \$289,000 to \$318,000. For the six months ended March 31, 2003 and 2002, depreciation and amortization were \$658,000 and \$691,000, respectively, for a decrease of \$33,000.

Interest income decreased \$142,000 from \$274,000 in the second quarter of fiscal 2002 to \$132,000 in the second fiscal quarter of 2003. For the six months ended March 31, 2003 and 2002, interest income decreased \$261,000 to \$327,000 from \$588,000. This decrease is primarily attributable to the reduction in late payment fees received by our Medical Staffing division due to a more competitive pricing environment.

Interest expense increased \$85,000 to \$104,000 in the second fiscal quarter of 2003 from \$19,000 in the second quarter of fiscal 2002. For the six months ended March 31, 2003 and 2002, interest expense increased \$138,000, from \$32,000 to \$170,000. These increases were due to the amortization of deferred financing costs associated with our line of credit with Fleet, which was effective April 9, 2002 and interest costs associated with the settlement of outstanding Texas state unemployment taxes.

Income tax benefit for the quarter ended March 31, 2003 was \$3,098,000 versus income tax expense of \$198,000 for the quarter ended March 31, 2002. Income tax benefit for the six months ended March 31, 2003 was \$3,096,000 versus income tax expense of \$574,000 for the six months ended March 31, 2002. These tax benefits are a result of a write down of tax deductible components of goodwill and losses from operations.

Net loss for the quarter ended March 31, 2003 was \$(25,957,000), or \$(1.65) per fully diluted share, as compared to net income of \$444,000, or \$0.03 per fully diluted share, for the quarter ended March 31, 2002. This decrease is predominantly due to the after tax write down of impaired goodwill and the Wachovia relationship of \$(24,153,000), or \$(1.53) per fully diluted share. Additional losses resulted from increased workers' compensation reserves, increased state unemployment taxes, the accrual for TeamStaff's potential obligations to its former Chief Financial Officer under his severance agreement and TeamStaff's obligations to its President and Chief Executive Officer and its former Chief Financial Officer under its SERP, and the decreased performance of TeamStaff's Medical Staffing division. Net loss for the six months ended March 31, 2003 was \$(25,872,000) or \$(1.64) per fully diluted share, as compared to net income of \$1,071,000 or \$0.07 per fully diluted share for the same period last year.

#### LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities in the first six months of fiscal 2003 was \$4,039,000 compared to \$439,000 used in the same period of fiscal 2002. The change in cash from operations compared to last year relates to lower accounts receivable and accrued liabilities due to reduced revenue in the PEO reporting segment, increases in prepaid workers' compensation cost, and lower earnings. The remaining change is due to timing of payments in this period versus the same period last year in accounts payable, accrued payroll and expenses. The timing and amounts of such payments can vary significantly based on various factors, including the day of the week on which a month ends and the existence of holidays on or immediately following a month end.

Cash used in investing activities of \$1,138,000 was primarily related to costs incurred for the licensing of the ScorPEO PEO software system of \$279,000, capitalized internally developed software of \$292,000; other computer hardware and software acquisitions of \$228,000 and payment related to the earn out provisions from our purchase of the assets of Corporate Staffing Concepts LLC of \$250,000.

The cash used in financing activities of \$761,000 was primarily due to spending \$675,000 in repurchasing 216,512 shares of TeamStaff stock in the first six months of Fiscal 2003.

As of March 31, 2003, TeamStaff had cash and cash equivalents of \$6,517,000 and net accounts receivable of \$17,007,000.

Management of TeamStaff believes that its existing cash will be sufficient to support cash needs for at least the next twelve months. The amount of available cash includes cash held for future payroll and other related taxes payable on a quarterly basis.

On July 22, 1999, the Board of Directors authorized the repurchase up to 3% of the outstanding shares of TeamStaff's common stock. Since inception through March 31, 2003, we have repurchased 546,768 shares at an average cost of \$4.25 per share for a total cost of \$2,323,000. These share repurchases are reflected as treasury shares in these financial statements and will eventually be retired. During the quarter ended March 31, 2003, 78,612 shares were purchased at a

cost of \$243,000. During the six months ended March 31, 2003, 216,512 shares were purchased at a cost of \$675,000. On November 19, 2002, the Board of Directors authorized an additional repurchase of up to \$1,000,000 in common stock.

On April 9, 2002, TeamStaff entered into a revolving loan facility with Fleet National Bank (Fleet). The total outstanding loan amount cannot exceed at any one time the lesser of \$7,000,000 or the sum of 85% of qualified accounts receivable, less an amount reserved by Fleet to support direct debit processing exposure. The annual interest rate is either the Fleet prime rate or LIBOR, at the discretion of TeamStaff, and is currently 4.25%. The facility is collateralized by substantially all of the assets of TeamStaff, including its accounts receivables. The facility is subject to certain covenants including, but not limited to, interest rate coverage of 2.0 to 1.0, total liabilities to tangible net worth ratio of 2.0 to 1.0, and minimum working capital of \$10,000,000.

Effective March 21, 2003, the Company and Fleet agreed to a renewal of the revolving loan facility, which now expires on March 31, 2004. The terms of the facility are substantially as described above, except that the total outstanding loan amount at any one time cannot exceed the lesser of \$6,000,000 or the sum of 85% of the qualified accounts receivable less an amount reserved by Fleet. At March 31, 2003, the sole outstanding amount of the facility represented an outstanding letter of credit in the amount of \$3.5 million issued with respect to TeamStaff's workers' compensation program with Zurich effective April 1, 2003 described above. TeamStaff is not in compliance with the interest rate coverage covenant as of March 31, 2003 due to the write down of impaired intangible assets. Fleet Bank has granted TeamStaff a waiver for this quarter and has amended the agreement to delete the interest rate coverage covenant and replace it with a minimum earnings before interest expense covenant for future quarters.

#### EFFECTS OF INFLATION

Inflation and changing prices have not had a material effect on TeamStaff's net revenues and results of operations in the last three fiscal years, as TeamStaff has been able to modify its prices and cost structure to respond to inflation and changing prices.

TeamStaff does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. TeamStaff has no material interest rate risk, except with respect to our workers' compensation programs, and is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. In connection with TeamStaff's workers' compensation programs, prepayments of future claims are deposited into trust funds for possible future payments of these claims in accordance with the policies. The interest income resulting from these prepayments is for the benefit of TeamStaff, and is used to offset workers' compensation expense. If interest rates in these periods' decreases, TeamStaff's workers' compensation expense would increase because TeamStaff would be entitled to less interest income on the deposited funds.

#### ITEM 3.

##### CONTROLS AND PROCEDURES

##### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES:

Our management, under the supervision and with the participation of our Chief Executive Officer and Controller, conducted an evaluation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c)) within 90 days of the filing date of this Quarterly Report on Form 10-Q. Based on their evaluation, our chief executive officer and controller have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that all material information required to be filed in this Quarterly Report on Form 10-Q has been made known to them.

##### CHANGES IN INTERNAL CONTROLS:

TeamStaff is in the process of consolidating its multiple PEO operating systems onto one, web-enabled system, ScorPEO, licensed by F.W. Davison. TeamStaff expects to have this consolidation completed by the close of the third fiscal quarter of 2003. TeamStaff is on plan with respect to this consolidation project. TeamStaff also has implemented its new financial and reporting system licensed from Lawson, effective May 2, 2003, that will ultimately be integrated with the ScorPEO system.

Other than as described above, there have been no significant changes, including corrective actions with regard to significant deficiencies or material weaknesses, in our internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date set forth above.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In July 2000, TeamStaff made claims for indemnification against the selling shareholders of the TeamStaff Companies (the Sellers), which were acquired by the Company in January 1999. The claims consisted of various potential liabilities and expenses incurred based on breaches of representations and warranties contained in the acquisition agreement. The Sellers disputed these claims and attempted to assert claims of their own. On January 12, 2001, the Company entered into a settlement agreement with the sellers. Under the settlement agreement, the sellers agreed to be liable and responsible for certain potential liabilities estimated at approximately \$540,000 and agreed that 55,000 shares of TeamStaff common stock, which had been held in escrow since the acquisition, were to be cancelled and TeamStaff agreed to release 29,915 escrow shares to the sellers. TeamStaff retains 75,000 shares in escrow to provide security for the seller's obligations. Each party agreed to release each other from all other claims under the acquisition agreements. No third parties have contacted TeamStaff seeking payment in the last fiscal year and to date for these potential liabilities. In the event that TeamStaff incurs liability to third parties with respect to the claims, TeamStaff would declare an event of default under the settlement agreement and seek collection from the former owners.

The Company's subsidiary, BrightLane is party to a suit brought by one of its former shareholders (Atomic Fusion, Inc. v. BrightLane.com, Inc. , Civil Action No ONS022460E, Fulton County State Court, Georgia). The plaintiff seeks damages for alleged unpaid contractual services provided to BrightLane, alleging that the shares (both in number and value) of BrightLane stock provided to the plaintiff in payment of services were inadequate to pay for the alleged agreed upon value of services. TeamStaff and BrightLane intend to defend themselves vigorously in this matter and believe that they have meritorious and valid defenses to plaintiff's claims. In addition, the former shareholders of BrightLane have placed approximately 158,000 shares in escrow to provide indemnification for any claims made by TeamStaff under the acquisition agreements, subject to a \$300,000 threshold. In the event that the threshold is reached, some or all of these shares may be canceled in an amount equal to the amount of any claim or expense in excess of the threshold. Under the terms of the agreements between TeamStaff and BrightLane, the value of the shares held in escrow is \$8.10 per share. It is possible that an award in favor of Atomic Fusion would result in monetary damages against TeamStaff, which could not be recovered under the indemnification provisions because the cancellation of the shares in escrow is the sole method of satisfying these indemnification obligations.

As a commercial enterprise and employer and in connection with its businesses as a professional employer organization, payroll service provider and temporary medical staffing firm, TeamStaff is engaged in litigation from time to time during the ordinary course of business in connection with employee suits, workers' compensation and other matters. Generally, TeamStaff is entitled to indemnification or repayment from its client's employers for claims brought by worksite employees related to their employment. However, there can be no assurance that the client employer will have funds or insurance in amounts to cover any damages or awards, and as a co-employer, TeamStaff may be subject to liability.

TeamStaff is engaged in no other litigation, the effect of which would be anticipated to have a material adverse impact on the Company's financial conditions or results of operations.

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to shareholders during the quarter ended March 31, 2003. The Company has scheduled its next meeting of shareholders for July 29, 2003.

ITEM 5. OTHER INFORMATION

Effective January 1, 2003, TeamStaff entered into a one-year employment agreement with Elizabeth Hoaglin pursuant to which Ms. Hoaglin currently serves as President, TeamStaff Rx, Inc., at an annual salary of \$130,000. In addition, Ms. Hoaglin is entitled to receive a bonus to be determined based on the achievement of certain performance criteria determined as of the commencement of each fiscal year. Ms. Hoaglin receives certain other benefits granted to other members of the Company's senior management, including health and other insurance benefits, as well as a car allowance of \$300 per month and four weeks annual vacation.

Effective January 1, 2003, TeamStaff entered into a one-year employment agreement with Edmund C. Kenealy pursuant to which Mr. Kenealy currently serves as Vice President, General Counsel, at an annual salary of \$160,000. In addition, Mr. Kenealy is entitled to receive: (i) an increase in annual compensation as of October 1, 2003; and (ii) a bonus to be determined based on the achievement of certain performance criteria determined as of the commencement of each fiscal year. Mr. Kenealy receives certain other benefits granted to other members of the Company's senior management, including health and other insurance benefits, as well as a car allowance of \$500 per month and three weeks annual vacation.

Effective January 1, 2003, TeamStaff entered into a one-year employment agreement with Wayne R. Lynn pursuant to which Mr. Lynn currently serves as Chief Operating Officer of the Company's PEO Division, at an annual salary of \$150,000. In addition, Mr. Lynn is entitled to receive: (i) a yearly increase in annual compensation as of March 19, 2003; and (ii) a bonus to be determined based on the achievement of certain performance criteria determined as of the commencement of each fiscal year. Mr. Lynn receives certain other benefits granted to other members of the Company's senior management, including health and other insurance benefits, as well as a car allowance of \$500 per month and three weeks annual vacation.

ITEM 6. RECENT EVENTS

NONE.

ITEM 7. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 10.1 Form of Employment Agreement with Elizabeth Hoaglin
- 10.2 Form of Employment Agreement with Edmund C. Kenealy
- 10.3 Form of Employment Agreement with Wayne R. Lynn
- 10.4 First Amendment to Loan and Security Agreement with Fleet National Bank, dated March 31, 2003
- 10.5 Amended Master Note with Fleet National Bank, dated March 31, 2003
- 10.6 Amended Guarantor's Ratification with Fleet National Bank, dated March 31, 2003
- 10.7 Second Amendment to Loan and Security Agreement with Fleet National Bank, dated May 14, 2003.
- 99.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEAMSTAFF, INC.  
(Registrant)

/s/ Donald W. Kappauf

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Donald W. Kappauf  
Chief Executive Officer

/s/ Gerard A. Romano

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Gerard A. Romano  
Corporate Controller

Date: May 15, 2003

CERTIFICATIONS

I, Donald W. Kappauf, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TeamStaff, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Donald W. Kappauf  
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President and Chief Executive Officer

CERTIFICATIONS

I, Gerard A. Romano, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TeamStaff, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Gerard A. Romano  
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Corporate Controller

EMPLOYMENT AGREEMENT

AGREEMENT made as of the 1st day of January 2003 by and between Elizabeth Hoaglin, residing at 30 Midway Island, Clearwater, Florida 34630 (hereinafter referred to as the "Employee") and TEAMSTAFF, INC., a New Jersey corporation with principal offices located at 300 Atrium Drive, Somerset, New Jersey 08873 (hereinafter referred to as the "Company").

W I T N E S S E T H :

WHEREAS, the Company and its subsidiaries are engaged in the business of providing professional employer organization ("PEO"), temporary and permanent staffing and payroll administration services, including temporary and permanent medical staffing through its wholly-owned subsidiary, TeamStaff Rx, Inc.;

WHEREAS, the Company desires to employ the Employee for the purpose of securing for the Company the experience, ability and services of the Employee; and

WHEREAS, the Employee desires to be employed with the Company, pursuant to the terms and conditions herein set forth;

NOW, THEREFORE, it is mutually agreed by and between the parties hereto as follows:

ARTICLE I  
EMPLOYMENT/DUTIES

1.1 Subject to and upon the terms and conditions of this Agreement, the Company hereby employs the Employee, and the Employee hereby accepts such employment in her capacity as President of TeamStaff, Rx, Inc.

1.2 The Employee shall, during the term of her employment with the Company, and subject to the direction and control of the President and/or CEO of the Company ("Executive Management"), perform such duties and functions as she may be called upon to perform during the term of this Agreement.

1.3 The Employee agrees to devote full business time and her best efforts in the performance of her duties for the Company and any subsidiary corporation of the Company.

1.4 The Employee shall perform, in conjunction with the Company's Executive Management, to the best of her ability the following services and duties for the Company and its subsidiary corporations (by way of example, and not by way of limitation):

- (i) Those duties attendant to the position with the Company for which she is hired;



- (ii) Establish and implement current and long range objectives, plans, and policies, subject to the approval of the Executive Management;
- (iii) Managerial oversight of the Company's temporary and permanent medical staffing division from the Company's offices in Clearwater, New Jersey;
- (iv) Ensure that all Company temporary and permanent medical staffing activities and operations are carried out in compliance with local, state and federal regulations and laws governing business operations
- (v) Growth and profitability of the Company's temporary and permanent medical staffing business; and
- (vi) Promotion of the relationships of the Company and its subsidiaries with their respective employees, customers, suppliers and others in the business community.

1.5 Employee shall be based in the Clearwater, Florida area, and shall undertake such occasional travel, within or without the United States as is or may be reasonably necessary in the interests of the Company and the performance of her duties.

#### ARTICLE II COMPENSATION

2.1 Commencing the date hereof and during the term hereof, Employee shall be compensated initially at the rate of \$130,000 per annum (the "Base Salary"), which shall be paid to Employee as in accordance with the Company's regular payroll periods.

2.2 Employee shall be entitled to receive a bonus (the "Bonus") for any fiscal year ending during the term hereof in accordance with the Company's Division Management Bonus Program to be determined by the Compensation Committee of the Company's Board of Directors as of the commencement of each fiscal year.

2.3 The Company shall deduct from Employee's compensation all federal, state, and local taxes that it may now or may hereafter be required to deduct.

#### ARTICLE III BENEFITS

3.1 During the term hereof, the Company shall provide Employee with group health care, insurance and such other benefits as generally made available to the Company's senior management; reimburse the Employee, upon presentation of appropriate vouchers, for all reasonable business expenses incurred by the Employee on behalf of the Company upon presentation of suitable documentation; and pay to Employee the sum of \$300 per month as and for an automobile allowance.

3.2 For each year of the term hereof, in addition to paid holidays established by the

Company from time to time, Employee shall be entitled to four (4) weeks paid vacation.

ARTICLE IV  
NON-DISCLOSURE

4.1 The Employee shall not, at any time during or after the termination of her employment hereunder, except when acting on behalf of and with the authorization of the Company, make use of or disclose to any person, corporation, or other entity, for any purpose whatsoever, any trade secret or other confidential information concerning the Company's business, finances, marketing, computerized payroll and voucher, accounting and information business, personnel, temporary and permanent staffing and/or professional employer organization, administrative service organization or employee leasing business of the Company and its subsidiaries, including, without limitation, information relating to any customer of the Company or pool of temporary employees, product or service pricing or any other nonpublic business information of the Company and/or its subsidiaries learned as a consequence of Employee's employment with the Company (collectively referred to as the "Proprietary Information"). For the purposes of this Agreement, trade secrets and confidential information shall mean information disclosed to the Employee or known by her as a consequence of her employment by the Company, whether or not pursuant to this Agreement, and not generally known in the industry. The Employee acknowledges that trade secrets and other items of confidential information, as they may exist from time to time, are valuable and unique assets of the Company, and that disclosure of any such information would cause substantial injury to the Company.

ARTICLE V  
RESTRICTIVE COVENANT

5.1 In the event of the voluntary termination of employment with the Company prior to the expiration of the term hereof, or Employee's discharge in accordance with Article VIII, or the expiration of the term hereof without renewal, Employee agrees that she will not, for a period of one (1) year following such termination (or expiration, as the case may be) directly or indirectly enter into or become associated with or engage in any other business (whether as a partner, officer, director, shareholder, employee, consultant, or otherwise), if such business is involved in the temporary or permanent medical staffing business, or is otherwise engaged in the same or similar business as the Company shall be engaged and is in direct competition with the Company, or which the Company is in the process of developing, during the tenure of Employee's employment by the Company. Notwithstanding the foregoing, the ownership by Employee of less than 2% percent of the shares of any publicly held corporation shall not violate

the provisions of this Article V.

5.2 In furtherance of the foregoing, Employee shall not during the aforesaid period of non-competition, directly or indirectly, in connection with any computerized payroll or voucher, professional employer organization, administrative service organization, employee leasing, or temporary or permanent staffing business, or any business similar to the business in which the Company was engaged, or in the process of developing, during Employee's tenure with the Company, solicit any customer or employee of the Company who was a customer or employee of the Company during the tenure of her employment.

5.3 If any court shall hold that the duration of non-competition or any other restriction contained in this Article is unenforceable, it is our intention that same shall not thereby be terminated but shall be deemed amended to delete therefrom such provision or portion adjudicated to be invalid or unenforceable or, in the alternative, such judicially substituted term may be substituted therefor.

ARTICLE VI  
TERM

6.1 This Agreement shall commence on the date hereof and terminate on December 31, 2003 (the "Expiration Date"), unless sooner terminated as provided for herein.

6.2 Unless this Agreement is earlier terminated pursuant to the terms hereof, the Company and Employee agree to meet in good faith at either party's request to discuss whether the Company intends to negotiate an extension or renewal of this Agreement. The discussion contemplated by this Article 6.2 may be initiated by either party by written notice given no sooner than 90 days prior to the Expiration Date.

ARTICLE VII  
DISABILITY DURING TERM

7.1 In the event Employee becomes totally disabled so that she is unable or prevented from performing any one or all of her usual duties hereunder for a period of 60 consecutive days or 60 days within any one year period, and the Company elects to terminate this agreement in accordance with Article VIII, paragraph (B) then, and in that event, Employee shall receive her Base Salary as provided under Article II of this Agreement for a period of the lesser of three (3) months commencing from the date of such total disability or the balance of the then current one year term of this Agreement. The obligation of the Company to make the aforesaid payments shall be modified and reduced and the Company shall receive a credit for all disability insurance payments which Employee may receive from insurance policies provided by the Company.

ARTICLE VIII  
TERMINATION

8.1 The Company may terminate this Agreement:

a. Upon the death of Employee during the term hereof, except that the Employee's legal representatives, successors, assigns, and heirs shall have those rights and interests as otherwise provided in this Agreement, including the right to receive accrued but unpaid incentive compensation and special bonus compensation on a pro rata basis.

b. Subject to the terms of Article VIII, upon written notice from the Company to the Employee, if Employee becomes totally disabled and as a result of such total disability, has been prevented from and unable to perform all of her duties hereunder for a consecutive period of 60 days or for 60 days in any one year period.

c. Upon written notice from the Company to the Employee, at any time for "Cause." For purposes of this Agreement, "Cause" shall be defined as: (i) willful disobedience by the Employee of a material and lawful instruction of the Executive Management; (ii) conviction of the Employee of any misdemeanor involving fraud or embezzlement or similar crime, or any felony; (iii) breach by the Employee of any material provision of this Agreement or any material written policy or procedure of the Company; (iv) conduct amounting to fraud, dishonesty, negligence, willful misconduct, recurring insubordination, inattention to or unsatisfactory performance of duties which adversely affects operations of the Company; or (v) violation of any state or federal securities or employee labor laws or regulations relating to sexual harassment or discrimination, as determined in good faith by the Board of Directors or a governmental entity or court of law, provided that the Company shall not have the right to terminate the employment of Employee pursuant to the foregoing clauses (i), (iii), (iv) or (v) above unless written notice specifying such breach shall have been given to the Employee and, in the case of breach which is capable of being cured, the Employee shall have failed to cure such breach within 20 days after her receipt of such notice.

8.2 Employee may terminate this agreement at any time upon 15 days notice with or without cause.

8.3 In the event of the termination of this Agreement and the discharge of Employee by the Company in breach and violation of this Agreement, Employee shall not be obligated to mitigate damages by seeking or obtaining alternate employment.

8.4 In the event of the termination of this Agreement for any reason, all rights and obligations of the parties provided herein shall immediately cease except for those provisions contained in Articles 4, 6 and 8.1(a) hereof.

ARTICLE IX  
TERMINATION OF PRIOR AGREEMENTS

9.1 This Agreement sets forth the entire agreement between the parties and supersedes all prior agreements between the parties concerning the subject matter hereof, whether oral or written, prior to the effective date of this Agreement.

ARTICLE X  
ARBITRATION AND INDEMNIFICATION

10.1 Any dispute arising out of the interpretation, application, and/or performance of this Agreement with the sole exception of any claim, breach, or violation arising under Articles IV or V hereof shall be settled through final and binding arbitration before a single arbitrator in the State of New Jersey in accordance with the Rules of the American Arbitration Association. The arbitrator shall be selected by the Association and shall be an attorney-at-law experienced in the field of corporate and/or employment law. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.

10.2 The Company hereby agrees to indemnify, defend, and hold harmless the Employee for any and all claims arising from or related to her employment by the Company at any time asserted, at any place asserted, to the fullest extent as provided for in the Company's Articles of incorporation and Bylaws. The Company shall maintain such insurance as is necessary and reasonable to protect the Employee from any and all claims arising from or in connection with her employment by the Company, provided such insurance can be obtained without unreasonable effort and expense.

ARTICLE XI  
SEVERABILITY

11.1 If any provision of this Agreement shall be held invalid and unenforceable, the remainder of this Agreement shall remain in full force and effect. If any provision is held invalid or unenforceable with respect to particular circumstances, it shall remain in full force and effect in all other circumstances.

ARTICLE XII  
NOTICE

12.1 All notices required to be given under the terms of this Agreement shall be in writing and shall be deemed to have been duly given only if delivered to the addressee in person, with written acknowledgment received, or mailed by certified mail, return receipt requested, as follows:

IF TO THE COMPANY:           TeamStaff, Inc.  
                                  300 Atrium Drive  
                                  Somerset, NJ 08873  
                                  Attn: Chief Executive Officer

IF TO THE EMPLOYEE:       Elizabeth Hoaglin  
                                  30 Midway Island  
                                  Clearwater, FL 34630

or to any such other address as the party to receive the notice shall advise by due notice given in accordance with this paragraph. Notice shall be effective three (3) days after delivery or mailing.

ARTICLE XIII  
BENEFIT

13.1 This Agreement shall inure to, and shall be binding upon, the parties hereto, the successors and assigns of the Company, and the heirs and personal representatives of the Employee.

ARTICLE XIV  
WAIVER

14.1 The waiver by either party of any breach or violation of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of construction and validity.

ARTICLE XV  
GOVERNING LAW

15.1 This Agreement has been negotiated and executed in the State of New Jersey and the laws of the State of New Jersey shall govern its construction and validity.

ARTICLE XVI  
ENTIRE AGREEMENT

16.1 This Agreement contains the entire agreement between the parties hereto regarding the subject matter hereof. No change, addition, or amendment shall be made hereto, except by written agreement signed by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and affixed their hands and seals effective the day and year first above written.

TEAMSTAFF, INC.

By: \_\_\_\_\_

Donald W. Kappauf  
President & CEO

\_\_\_\_\_  
Elizabeth Hoaglin

EMPLOYMENT AGREEMENT

AGREEMENT made as of the 1st day of January 2003 by and between Edmund C. Kenealy, residing at 12 Ruddock Road, Sudbury, MA 01776 (hereinafter referred to as the "Employee") and TEAMSTAFF, INC., a New Jersey corporation with principal offices located at 300 Atrium Drive, Somerset, New Jersey 08873 (hereinafter referred to as the "Company").

W I T N E S S E T H :

WHEREAS, the Company and its subsidiaries are engaged in the business of providing professional employer organization ("PEO"), temporary and permanent staffing and payroll administration services;

WHEREAS, the Company desires to employ the Employee for the purpose of securing for the Company the experience, ability and services of the Employee; and

WHEREAS, the Employee desires to be employed with the Company, pursuant to the terms and conditions herein set forth;

NOW, THEREFORE, it is mutually agreed by and between the parties hereto as follows:

ARTICLE I  
EMPLOYMENT/DUTIES

1.1 Subject to and upon the terms and conditions of this Agreement, the Company hereby employs the Employee, and the Employee hereby accepts such employment in his capacity as Vice President , General Counsel.

1.2 The Employee shall, during the term of his employment with the Company, and subject to the direction and control of the President and/or CEO of the Company ("Executive Management"), perform such duties and functions as he may be called upon to perform during the term of this Agreement.

1.3 The Employee agrees to devote full business time and his best efforts in the performance of his duties for the Company and any subsidiary corporation of the Company.

1.4 The Employee shall perform, in conjunction with the Company's Executive Management, to the best of his ability the following services and duties for the Company and its subsidiary corporations (by way of example, and not by way of limitation):

- (i) Those duties attendant to the position with the Company for which he is hired;



- (ii) Establish and implement current and long range objectives, plans, and policies, subject to the approval of the Executive Management;
- (iii) Managerial oversight of the Company's legal department, including coordinating relationships and legal services provided by outside legal service providers;
- (iv) Legal planning for the Company, including oversight of maintaining the legal status of the Company in the various states of operation; and
- (v) Promotion of the relationships of the Company and its subsidiaries with their respective employees, customers, suppliers and others in the business community.

1.5 Employee shall be based in the Boston, Massachusetts area, and shall undertake such occasional travel, within or without the United States as is or may be reasonably necessary in the interests of the Company and the performance of his duties.

#### ARTICLE II COMPENSATION

2.1 Commencing the date hereof and during the term hereof, Employee shall be compensated initially at the rate of \$160,000 per annum, subject to an increase to be determined as of October 1, 2003 (the "Base Salary"), which shall be paid to Employee as in accordance with the Company's regular payroll periods.

2.2 Employee shall be entitled to receive a bonus (the "Bonus") for any fiscal year ending during the term hereof in accordance with the Company's Management Bonus Program to be determined as of the commencement of each fiscal year.

2.3 The Company shall deduct from Employee's compensation all federal, state, and local taxes that it may now or may hereafter be required to deduct.

#### ARTICLE III BENEFITS

3.1 During the term hereof, the Company shall provide Employee with group health care, insurance and other benefits as generally made available to the Company's senior management; reimburse the Employee, upon presentation of appropriate vouchers, for all reasonable business expenses incurred by the Employee on behalf of the Company upon presentation of suitable documentation; and pay to Employee the sum of \$500 per month as and for an automobile allowance.

3.2 For each year of the term hereof, Employee shall be entitled to three (3) weeks paid vacation.

ARTICLE IV  
NON-DISCLOSURE

4.1 The Employee shall not, at any time during or after the termination of his employment hereunder, except when acting on behalf of and with the authorization of the Company, make use of or disclose to any person, corporation, or other entity, for any purpose whatsoever, any trade secret or other confidential information concerning the Company's business, finances, marketing, computerized payroll and voucher, accounting and information business, personnel, temporary and permanent staffing and/or professional employer organization, administrative service organization or employee leasing business of the Company and its subsidiaries, including, without limitation, information relating to any customer of the Company or pool of temporary employees, product or service pricing or any other nonpublic business information of the Company and/or its subsidiaries learned as a consequence of Employee's employment with the Company (collectively referred to as the "Proprietary Information"). For the purposes of this Agreement, trade secrets and confidential information shall mean information disclosed to the Employee or known by him as a consequence of his employment by the Company, whether or not pursuant to this Agreement, and not generally known in the industry. The Employee acknowledges that trade secrets and other items of confidential information, as they may exist from time to time, are valuable and unique assets of the Company, and that disclosure of any such information would cause substantial injury to the Company.

ARTICLE V  
RESTRICTIVE COVENANT

5.1 In the event of the voluntary termination of employment with the Company prior to the expiration of the term hereof, or Employee's discharge in accordance with Article VIII, or the expiration of the term hereof without renewal, Employee agrees that he will not, for a period of one (1) year following such termination (or expiration, as the case may be) directly or indirectly enter into or become associated with or engage in any other business (whether as a partner, officer, director, shareholder, employee, consultant, or otherwise), which business is located in the States of Massachusetts, New Hampshire, Vermont, Connecticut, Rhode Island, Texas, Florida, New Jersey and New York, and such business is involved in the professional employer organization business, or is otherwise engaged in the same or similar business as the Company shall be engaged and is in direct competition with the Company, or which the Company is in the process of developing, during the tenure of Employee's employment by the Company. Notwithstanding the foregoing, the ownership by Employee of less than 2% percent of the shares of any publicly held corporation shall not violate the provisions of this Article V.

5.2 In furtherance of the foregoing, Employee shall not during the aforesaid period of

non-competition, directly or indirectly, in connection with any computerized payroll, employee leasing, or permanent or temporary personnel business, or any business similar to the business in which the Company was engaged, or in the process of developing, during Employee's tenure with the Company, solicit any customer or employee of the Company who was a customer or employee of the Company during the tenure of his employment.

5.3 If any court shall hold that the duration of non-competition or any other restriction contained in this Article is unenforceable, it is our intention that same shall not thereby be terminated but shall be deemed amended to delete therefrom such provision or portion adjudicated to be invalid or unenforceable or, in the alternative, such judicially substituted term may be substituted therefor.

ARTICLE VI  
TERM

6.1 This Agreement shall commence on the date hereof and terminate on December 31, 2003 (the "Expiration Date"), unless sooner terminated as provided for herein.

6.2 Unless this Agreement is earlier terminated pursuant to the terms hereof, the Company and Employee agree to meet in good faith at either party's request to discuss whether the Company intends to negotiate an extension or renewal of this Agreement. The discussion contemplated by this Article 6.2 may be initiated by either party by written notice given no sooner than 90 days prior to the Expiration Date.

ARTICLE VII  
DISABILITY DURING TERM

7.1 In the event Employee becomes totally disabled so that he is unable or prevented from performing any one or all of his usual duties hereunder for a period of 60 consecutive days or 60 days within any one year period, and the Company elects to terminate this agreement in accordance with Article VIII, paragraph (B) then, and in that event, Employee shall receive his Base Salary as provided under Article II of this Agreement for a period of the lesser of three (3) months commencing from the date of such total disability or the balance of the then current one year term of this agreement. The obligation of the Company to make the aforesaid payments shall be modified and reduced and the Company shall receive a credit for all disability insurance payments which Employee may receive from insurance policies provided by the Company.

ARTICLE VIII  
TERMINATION

8.1 The Company may terminate this Agreement:

a. Upon the death of Employee during the term hereof, except that the Employee's legal representatives, successors, assigns, and heirs shall have those rights and interests as otherwise provided in this Agreement, including the right to receive accrued but unpaid incentive compensation and special bonus compensation on a pro rata basis.

b. Subject to the terms of Article VIII, upon written notice from the Company to the Employee, if Employee becomes totally disabled and as a result of such total disability, has been prevented from and unable to perform all of his duties hereunder for a consecutive period of 60 days or for 60 days in any one year period.

c. Upon written notice from the Company to the Employee, at any time for "Cause." For purposes of this Agreement, "Cause" shall be defined as: (i) willful disobedience by the Employee of a material and lawful instruction of the Executive Management; (ii) conviction of the Employee of any misdemeanor involving fraud or embezzlement or similar crime, or any felony; (iii) breach by the Employee of any material provision of this Agreement or any material written policy or procedure of the Company; (iv) conduct amounting to fraud, dishonesty, negligence, willful misconduct, recurring insubordination, inattention to or unsatisfactory performance of duties which adversely affects operations of the Company; or (v) violation of any state or federal securities or employee labor laws or regulations relating to sexual harassment or discrimination, as determined in good faith by the Board of Directors or a governmental entity or court of law, provided that the Company shall not have the right to terminate the employment of Employee pursuant to the foregoing clauses (i), (iii), (iv) or (v) above unless written notice specifying such breach shall have been given to the Employee and, in the case of breach which is capable of being cured, the Employee shall have failed to cure such breach within 20 days after his receipt of such notice.

8.2 Employee may terminate this agreement at any time upon 15 days notice with or without cause.

8.3 In the event of the termination of this Agreement and the discharge of Employee by the Company in breach and violation of this Agreement, Employee shall not be obligated to mitigate damages by seeking or obtaining alternate employment.

8.4 In the event of the termination of this Agreement for any reason, all rights and obligations of the parties provided herein shall immediately cease except for those provisions contained in Articles 4, 6 and 8.1(a) hereof.

#### ARTICLE IX TERMINATION OF PRIOR AGREEMENTS

9.1 This Agreement sets forth the entire agreement between the parties and supersedes all prior agreements between the parties concerning the subject matter hereof, whether oral or written, prior to the effective date of this Agreement.

ARTICLE X  
ARBITRATION AND INDEMNIFICATION

10.1 Any dispute arising out of the interpretation, application, and/or performance of this Agreement with the sole exception of any claim, breach, or violation arising under Articles IV or V hereof shall be settled through final and binding arbitration before a single arbitrator in the State of New Jersey in accordance with the Rules of the American Arbitration Association. The arbitrator shall be selected by the Association and shall be an attorney-at-law experienced in the field of corporate and/or employment law. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.

10.2 The Company hereby agrees to indemnify, defend, and hold harmless the Employee for any and all claims arising from or related to his employment by the Company at any time asserted, at any place asserted, to the fullest extent as provided for in the Company's Articles of incorporation and Bylaws. The Company shall maintain such insurance as is necessary and reasonable to protect the Employee from any and all claims arising from or in connection with his employment by the Company, provided such insurance can be obtained without unreasonable effort and expense.

ARTICLE XI  
SEVERABILITY

11.1 If any provision of this Agreement shall be held invalid and unenforceable, the remainder of this Agreement shall remain in full force and effect. If any provision is held invalid or unenforceable with respect to particular circumstances, it shall remain in full force and effect in all other circumstances.

ARTICLE XII  
NOTICE

12.1 All notices required to be given under the terms of this Agreement shall be in writing and shall be deemed to have been duly given only if delivered to the addressee in person, with written acknowledgment received, or mailed by certified mail, return receipt requested, as follows:

IF TO THE COMPANY:           TeamStaff, Inc.  
  300 Atrium Drive  
  Somerset, NJ 08873  
  Attn: Chief Executive Officer

IF TO THE EMPLOYEE: Edmund C. Kenealy  
12 Ruddock Road  
Sudbury, MA 01776

or to any such other address as the party to receive the notice shall advise by due notice given in accordance with this paragraph. Notice shall be effective three (3) days after delivery or mailing.

ARTICLE XIII  
BENEFIT

13.1 This Agreement shall inure to, and shall be binding upon, the parties hereto, the successors and assigns of the Company, and the heirs and personal representatives of the Employee.

ARTICLE XIV  
WAIVER

14.1 The waiver by either party of any breach or violation of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of construction and validity.

ARTICLE XV  
GOVERNING LAW

15.1 This Agreement has been negotiated and executed in the State of New Jersey and the laws of the State of New Jersey shall govern its construction and validity.

ARTICLE XVI  
ENTIRE AGREEMENT

16.1 This Agreement contains the entire agreement between the parties hereto regarding the subject matter hereof. No change, addition, or amendment shall be made hereto, except by written agreement signed by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and affixed their hands and seals effective the day and year first above written.

TEAMSTAFF, INC.

By:

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Donald W. Kappauf  
President & CEO

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Edmund C. Kenealy

EMPLOYMENT AGREEMENT

AGREEMENT made as of the 1st day of January 2003 by and between Wayne R. Lynn, residing at 38 Dorchester Court, Basking Ridge, New Jersey 07920 (hereinafter referred to as the "Employee") and TEAMSTAFF, INC., a New Jersey corporation with principal offices located at 300 Atrium Drive, Somerset, New Jersey 08873 (hereinafter referred to as the "Company").

W I T N E S S E T H :

WHEREAS, the Company and its subsidiaries are engaged in the business of providing professional employer organization ("PEO"), temporary and permanent staffing and payroll administration services;

WHEREAS, the Company desires to employ the Employee for the purpose of securing for the Company the experience, ability and services of the Employee; and

WHEREAS, the Employee desires to be employed with the Company, pursuant to the terms and conditions herein set forth;

NOW, THEREFORE, it is mutually agreed by and between the parties hereto as follows:

ARTICLE I  
EMPLOYMENT/DUTIES

1.1 Subject to and upon the terms and conditions of this Agreement, the Company hereby employs the Employee, and the Employee hereby accepts such employment in his capacity as Chief Operating Officer - PEO Division.

1.2 The Employee shall, during the term of his employment with the Company, and subject to the direction and control of the President and/or CEO of the Company ("Executive Management"), perform such duties and functions as he may be called upon to perform during the term of this Agreement.

1.3 The Employee agrees to devote full business time and his best efforts in the performance of his duties for the Company and any subsidiary corporation of the Company.

1.4 The Employee shall perform, in conjunction with the Company's Executive Management, to the best of his ability the following services and duties for the Company and its subsidiary corporations (by way of example, and not by way of limitation):

- (i) Those duties attendant to the position with the Company for which he is hired;



- (ii) Establish and implement current and long range objectives, plans, and policies, subject to the approval of the Executive Management;
- (iii) Managerial oversight of the Company's PEO Division from the Company's offices in Somerset, New Jersey;
- (iv) Ensure that all Company PEO activities and operations are carried out in compliance with local, state and federal regulations and laws governing business operations
- (v) Growth and profitability of the Company's PEO Division business; and
- (vi) Promotion of the relationships of the Company and its subsidiaries with their respective employees, customers, suppliers and others in the business community.

1.5 Employee shall be based in the Somerset, New Jersey area, and shall undertake such occasional travel, within or without the United States as is or may be reasonably necessary in the interests of the Company and the performance of his duties.

## ARTICLE II COMPENSATION

2.1 Commencing the date hereof and during the term hereof, Employee shall be compensated initially at the rate of \$150,000 per annum, subject to an increases to be determined as of March 19, 2003 (the "Base Salary"), which shall be paid to Employee as in accordance with the Company's regular payroll periods; provided, however, that for the purposes of this provision, the first 12-month anniversary of this Agreement shall be deemed to occur on March 19, 2003.

2.2 Employee shall be entitled to receive a bonus (the "Bonus") for any fiscal year ending during the term hereof in accordance with the Company's Division Management Bonus Program to be determined by the Compensation Committee of the Company's Board of Directors as of the commencement of each fiscal year.

2.3 The Company shall deduct from Employee's compensation all federal, state, and local taxes that it may now or may hereafter be required to deduct.

## ARTICLE III BENEFITS

3.1 During the term hereof, the Company shall provide Employee with group health care, insurance and such other benefits as generally made available to the Company's senior management; reimburse the Employee, upon presentation of appropriate vouchers, for all reasonable business expenses incurred by the Employee on behalf of the Company upon presentation of suitable documentation; and pay to Employee the sum of \$500 per month as and

for an automobile allowance.

3.2 For each year of the term hereof, in addition to paid holidays established by the Company from time to time, Employee shall be entitled to three (3) weeks paid vacation.

ARTICLE IV  
NON-DISCLOSURE

4.1 The Employee shall not, at any time during or after the termination of his employment hereunder, except when acting on behalf of and with the authorization of the Company, make use of or disclose to any person, corporation, or other entity, for any purpose whatsoever, any trade secret or other confidential information concerning the Company's business, finances, marketing, computerized payroll and voucher, accounting and information business, personnel, temporary and permanent staffing and/or professional employer organization, administrative service organization or employee leasing business of the Company and its subsidiaries, including, without limitation, information relating to any customer of the Company or pool of temporary employees, product or service pricing or any other nonpublic business information of the Company and/or its subsidiaries learned as a consequence of Employee's employment with the Company (collectively referred to as the "Proprietary Information"). For the purposes of this Agreement, trade secrets and confidential information shall mean information disclosed to the Employee or known by him as a consequence of his employment by the Company, whether or not pursuant to this Agreement, and not generally known in the industry. The Employee acknowledges that trade secrets and other items of confidential information, as they may exist from time to time, are valuable and unique assets of the Company, and that disclosure of any such information would cause substantial injury to the Company.

ARTICLE V  
RESTRICTIVE COVENANT

5.1 In the event of the voluntary termination of employment with the Company prior to the expiration of the term hereof, or Employee's discharge in accordance with Article VIII, or the expiration of the term hereof without renewal, Employee agrees that he will not, for a period of one (1) year following such termination (or expiration, as the case may be) directly or indirectly enter into or become associated with or engage in any other business (whether as a partner, officer, director, shareholder, employee, consultant, or otherwise), which business is located in the States of Massachusetts, New Hampshire, Vermont, Connecticut, Rhode Island, Texas, Florida, New Jersey and New York, and such business is involved in the professional employer organization business, or is otherwise engaged in the same or similar business as the

Company shall be engaged and is in direct competition with the Company, or which the Company is in the process of developing, during the tenure of Employee's employment by the Company. Notwithstanding the foregoing, the ownership by Employee of less than 2% percent of the shares of any publicly held corporation shall not violate the provisions of this Article V.

5.2 In furtherance of the foregoing, Employee shall not during the aforesaid period of non-competition, directly or indirectly, in connection with any computerized payroll or voucher, professional employer organization, administrative service organization or employee leasing, or permanent or temporary personnel business, or any business similar to the business in which the Company was engaged, or in the process of developing, during Employee's tenure with the Company, solicit any customer or employee of the Company who was a customer or employee of the Company during the tenure of his employment.

5.3 If any court shall hold that the duration of non-competition or any other restriction contained in this Article is unenforceable, it is our intention that same shall not thereby be terminated but shall be deemed amended to delete therefrom such provision or portion adjudicated to be invalid or unenforceable or, in the alternative, such judicially substituted term may be substituted therefor.

ARTICLE VI  
TERM

6.1 This Agreement shall commence on the date hereof and terminate on December 31, 2003 (the "Expiration Date"), unless sooner terminated as provided for herein.

6.2 Unless this Agreement is earlier terminated pursuant to the terms hereof, the Company and Employee agree to meet in good faith at either party's request to discuss whether the Company intends to negotiate an extension or renewal of this Agreement. The discussion contemplated by this Article 6.2 may be initiated by either party by written notice given no sooner than 90 days prior to the Expiration Date.

ARTICLE VII  
DISABILITY DURING TERM

7.1 In the event Employee becomes totally disabled so that he is unable or prevented from performing any one or all of his usual duties hereunder for a period of 60 consecutive days or 60 days within any one year period, and the Company elects to terminate this agreement in accordance with Article VIII, paragraph (B) then, and in that event, Employee shall receive his Base Salary as provided under Article II of this Agreement for a period of the lesser of three (3) months commencing from the date of such total disability or the balance of the then current term of this Agreement. The obligation of the Company to make the aforesaid payments shall be modified and reduced and the Company shall receive a credit for all disability insurance payments that Employee may receive from insurance policies provided by the Company.

ARTICLE VIII  
TERMINATION

8.1 The Company may terminate this Agreement:

a. Upon the death of Employee during the term hereof, except that the Employee's legal representatives, successors, assigns, and heirs shall have those rights and interests as otherwise provided in this Agreement, including the right to receive accrued but unpaid incentive compensation and special bonus compensation on a pro rata basis.

b. Subject to the terms of Article VIII, upon written notice from the Company to the Employee, if Employee becomes totally disabled and as a result of such total disability, has been prevented from and unable to perform all of his duties hereunder for a consecutive period of 60 days or for 60 days in any one year period.

c. Upon written notice from the Company to the Employee, at any time for "Cause." For purposes of this Agreement, "Cause" shall be defined as: (i) willful disobedience by the Employee of a material and lawful instruction of the Executive Management; (ii) conviction of the Employee of any misdemeanor involving fraud or embezzlement or similar crime, or any felony; (iii) breach by the Employee of any material provision of this Agreement or any material written policy or procedure of the Company; (iv) conduct amounting to fraud, dishonesty, negligence, willful misconduct, recurring insubordination, inattention to or unsatisfactory performance of duties which adversely affects operations of the Company; or (v) violation of any state or federal securities or employee labor laws or regulations relating to sexual harassment or discrimination, as determined in good faith by the Board of Directors or a governmental entity or court of law, provided that the Company shall not have the right to terminate the employment of Employee pursuant to the foregoing clauses (i), (iii), (iv) or (v) above unless written notice specifying such breach shall have been given to the Employee and, in

the case of breach which is capable of being cured, the Employee shall have failed to cure such breach within 20 days after his receipt of such notice.

8.2 Employee may terminate this agreement at any time upon 15 days notice with or without cause.

8.3 In the event of the termination of this Agreement and the discharge of Employee by the Company in breach and violation of this Agreement, Employee shall not be obligated to mitigate damages by seeking or obtaining alternate employment.

8.4 In the event of the termination of this Agreement for any reason, all rights and obligations of the parties provided herein shall immediately cease except for those provisions contained in Articles 4, 6 and 8.1(a) hereof.

ARTICLE IX  
TERMINATION OF PRIOR AGREEMENTS

9.1 This Agreement sets forth the entire agreement between the parties and supersedes all prior agreements between the parties concerning the subject matter hereof, whether oral or written, prior to the effective date of this Agreement.

ARTICLE X  
ARBITRATION AND INDEMNIFICATION

10.1 Any dispute arising out of the interpretation, application, and/or performance of this Agreement with the sole exception of any claim, breach, or violation arising under Articles IV or V hereof shall be settled through final and binding arbitration before a single arbitrator in the State of New Jersey in accordance with the Rules of the American Arbitration Association. The arbitrator shall be selected by the Association and shall be an attorney-at-law experienced in the field of corporate and/or employment law. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.

10.2 The Company hereby agrees to indemnify, defend, and hold harmless the Employee for any and all claims arising from or related to his employment by the Company at any time asserted, at any place asserted, to the fullest extent as provided for in the Company's Articles of incorporation and Bylaws. The Company shall maintain such insurance as is necessary and reasonable to protect the Employee from any and all claims arising from or in connection with his employment by the Company, provided such insurance can be obtained without unreasonable effort and expense.

ARTICLE XI  
SEVERABILITY

11.1 If any provision of this Agreement shall be held invalid and unenforceable, the remainder of this Agreement shall remain in full force and effect. If any provision is held invalid or unenforceable with respect to particular circumstances, it shall remain in full force and effect in all other circumstances.

ARTICLE XII  
NOTICE

12.1 All notices required to be given under the terms of this Agreement shall be in writing and shall be deemed to have been duly given only if delivered to the addressee in person, with written acknowledgment received, or mailed by certified mail, return receipt requested, as follows:

IF TO THE COMPANY:           TeamStaff, Inc.  
                                  300 Atrium Drive  
                                  Somerset, NJ 08873  
                                  Attn: Chief Executive Officer

IF TO THE EMPLOYEE:         Wayne R. Lynn  
                                  38 Dorchester Court  
                                  Basking Ridge, NJ 07920

or to any such other address as the party to receive the notice shall advise by due notice given in accordance with this paragraph. Notice shall be effective three (3) days after delivery or mailing.

ARTICLE XIII  
BENEFIT

13.1 This Agreement shall inure to, and shall be binding upon, the parties hereto, the successors and assigns of the Company, and the heirs and personal representatives of the Employee.

ARTICLE XIV  
WAIVER

14.1 The waiver by either party of any breach or violation of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of construction and validity.

ARTICLE XV  
GOVERNING LAW

15.1 This Agreement has been negotiated and executed in the State of New Jersey and the laws of the State of New Jersey shall govern its construction and validity.

ARTICLE XVI  
ENTIRE AGREEMENT

16.1 This Agreement contains the entire agreement between the parties hereto regarding the subject matter hereof. No change, addition, or amendment shall be made hereto, except by written agreement signed by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and affixed their hands and seals effective the day and year first above written.

TEAMSTAFF, INC.

By: \_\_\_\_\_

Donald W. Kappauf  
President & CEO

\_\_\_\_\_  
Wayne R. Lynn

## FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT entered into this 31st day of March, 2003 by and among TEAMSTAFF, INC. (the "Borrower"), a corporation incorporated under the laws of the State of New Jersey, having its principal office at 300 Atrium Drive, Somerset, New Jersey 08873, TeamStaff Solutions, Inc, DSI Staff Connxions Northeast, Inc., DSI Staff Connxions Southwest, Inc., TeamStaff Rx, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff V, Inc., TeamStaff VI, Inc., TeamStaff VIII, Inc., TeamStaff IX, Inc., TeamStaff Insurance Services, Inc., Employer Support Services, Inc., HR2, Inc., BrightLane.com, Inc., Digital Insurance Services, Inc. (collectively, the "Guarantors") with respective addresses as shown on Schedule 5.13 hereof and FLEET NATIONAL BANK (the "Bank"), a national bank association organized under the laws of the United States of America, having an office at 750 Walnut Avenue, Cranford, New Jersey 07016.

## W I T N E S S E T H:

WHEREAS, the Bank Guarantors and the Borrower have previously entered into a commercial lending arrangement in accordance with the terms and conditions of a certain Loan and Security Agreement dated April 9, 2002 (the "Agreement");

WHEREAS, on April 9, 2002, the "Guarantors" each executed in favor of the Lender a certain Continuing Unlimited and Collateralized Guaranty (the "Guaranty") pursuant to which the Guarantors each guaranteed the Loan of the Borrower to the Bank;

WHEREAS, the Lender and the Borrower seek to memorialize the modifications to the Agreement by this writing.

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements herein contained, and other good and valuable consideration, receipt of which is hereby acknowledged, it is agreed as follows:

1. Section 1, Definitions of the Agreement is hereby modified to delete the definition of Termination Date and a new definition of "Termination Date" is substituted therefore to read as follows:

"Termination Date": March 31, 2004 or such other date as the Bank may agree in writing to extend the Termination Date until, without there being any obligation on the part of the Bank to extend the Termination Date.

2. Subsections 2.1(a) of the Agreement is hereby deleted and new Subsections 2.1(a) is substituted therefor to read as follows:

(a) Revolving Loan. The Bank agrees to lend and make Advances under the Revolving Loan to the Borrower from time to time until the Termination Date in amounts which shall not exceed in the aggregate, at any one time outstanding, the lesser of (i) SIX MILLION AND 00/00 DOLLARS (\$6,000,000) or (ii) the sum of the 85% of the Qualified Accounts less an amount reserved by the Bank, in its sole discretion (the lesser of (i) or (ii) above shall be referred to as the "Borrowing Base"). The Bank has the right to, from time to time, in its reasonable discretion, establish reserves against the Borrowing Base.

3. Upon execution of this Amendment, the Borrower shall deliver the following to the Bank: (a) this Amendment properly executed, (b) the Amended Master Note properly executed, (c) the Guarantors' Ratification properly executed, (d) within 45 days from the date hereof an executed opinion of Borrower's counsel in form and substance satisfactory to Bank, and (e) such other materials reasonably required by the Bank. It is understood and agreed that Borrower shall pay all fees and costs incurred by Bank in entering into this Amendment



and the other documents executed in connection herewith, including but not limited to all reasonable attorney fees and expenses of Bank's counsel.

4. All of the remaining terms and conditions of the Agreement shall remain in full force and effect as though set forth herein at length to the extent not inconsistent with the terms of this Amendment, and any term in initial capital letters not otherwise defined herein shall have the meaning ascribed thereto in the Agreement.

IN WITNESS WHEREOF, the parties hereunto set their hands and seals or caused these presents to be signed by their respective corporate officers and the proper corporate seal to be affixed hereto the day and year first above mentioned.

ATTEST: TEAMSTAFF, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST: TEAMSTAFF SOLUTIONS, INC

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

ATTEST: DSI STAFF CONNXIONS NORTHEAST, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICE

ATTEST: DSI STAFF CONNXIONS SOUTHWEST, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST: TEAMSTAFF RX, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF I, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF II, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF III, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF IV, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICE

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF V, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF VI, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF VIII, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF IX, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF INSURANCE SERVICES, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

EMPLOYER SUPPORT SERVICES, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

HR2, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BRIGHTLANE.COM, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

DIGITAL INSURANCE SERVICES, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

FLEET NATIONAL BANK  
  
BY: \_\_\_\_\_  
AVIS SPANN, VICE PRESIDENT

## AMENDED MASTER NOTE

\$6,000,000

Woodbridge, New Jersey  
March 31, 2003

ON March 31, 2004, for value received, TeamStaff, Inc., a corporation incorporated under the laws of the State of New Jersey, having its principal office at 300 Atrium Drive, Somerset, New Jersey 08873 promises to pay to the order of FLEET NATIONAL BANK ("Bank"), at its office located at 750 Walnut Avenue, Cranford, New Jersey 07016 or at such place as the holder hereof may from time to time designate in writing, the sum of up to SIX MILLION AND 00/100 DOLLARS (\$6,000,000) or the amount actually outstanding from time to time hereunder, at which time all outstanding principal, accrued interest fees and/or charges, if any, shall be due and payable, all in lawful monies of the United States of America, in immediately available funds, pursuant to the terms of a certain First Amendment to Loan and Security Agreement, dated of even date herewith by and between the undersigned and the Bank (as such may from time to time be amended, modified, restated or supplemented, the "Loan Agreement").

This Note shall bear interest from the date hereof until maturity, at a per annum rate equal to: (i) the Prime Rate or (ii) the LIBOR Rate plus the Applicable Margin, as more particularly described in the Loan Agreement.

This Note shall bear interest after maturity (whether as stated or by acceleration) or after a Default or an Event of Default at the Default Rate. In the event that any payment shall not be received by Bank within ten (10) days of the due date, the undersigned shall, to the extent permitted by law, pay Bank a late charge of five percent (5%) of the overdue payment. Any such late charge assessed shall be immediately due and payable. In no event shall any such payments of interest, charges or late fees exceed the maximum amount permitted by law.

As security for the payment of all Obligations of the undersigned to the Bank (including this Note and any renewals, extensions or modifications thereof), the undersigned and all Obligors have granted to the Bank a security interest in the Collateral as well as all other security as set forth in Section 3 of the Loan Agreement.

This Note is the "Master Note" referred to in the Loan Agreement. All terms of the Loan Agreement are incorporated herein by reference and in the event of ambiguity or inconsistency between the terms of the Loan Agreement and the terms hereof, the terms of the Loan Agreement shall prevail. All capitalized terms not specifically defined herein shall have the meaning ascribed to them in the Loan Agreement.

All parties hereto, whether makers, endorsers, guarantors or otherwise, hereby waive presentment, demand, notice of non-payment, protest, and all other notices or demands whatsoever, and do hereby consent that without notice to and without releasing the liability of any party hereto, the obligation of any party may from time to time, in whole or part, be renewed, extended, modified, accelerated, compromised, settled or released by the Bank.

This Amended Master Note is intended to restate in full and replace a certain Master Note in the original principal amount of \$7,000,000 executed by the undersigned on April 9, 2002. This Amended Master Note is not a novation.

THIS NOTE AND THE OTHER LOAN DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER SHALL BE CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW JERSEY (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW).

THE UNDERSIGNED AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS NOTE OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW JERSEY OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE UNDERSIGNED BY MAIL AT THE ADDRESS SET FORTH IN THE LOAN AGREEMENT. THE UNDERSIGNED HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT FORUM.

THE UNDERSIGNED AND THE BANK (BY ACCEPTANCE OF THIS NOTE) MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE OR ANY OTHER LOAN DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HERewith OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY, INCLUDING, WITHOUT LIMITATION, ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF THE BANK RELATING TO THE ADMINISTRATION OF THE REVOLVING LOAN OR ENFORCEMENT OF THE LOAN DOCUMENTS AND AGREE THAT NEITHER PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. EXCEPT AS PROHIBITED BY LAW, THE UNDERSIGNED HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. THE UNDERSIGNED CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE BANK HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR THE BANK TO ACCEPT THIS NOTE AND MAKE THE REVOLVING LOAN.

The Bank is hereby authorized to fill in any blank spaces in this Note and to date this Note as of the date when it is delivered. The Bank is hereby authorized to charge the following account as to any payment of principal and/or interest due hereunder or under the Loan Agreement: Account No. 0967703980.

ATTEST:

TEAMSTAFF, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN  
AND CHIEF EXECUTIVE OFFICER

## GUARANTORS' RATIFICATION

Each undersigned Guarantor hereby reaffirms his continuing obligations under the terms of his respective Continuing Unlimited and Collateralized Guaranty dated April 9, 2002 (each a "Guaranty"), and each acknowledges that (i) he has read the First Amendment to Loan and Security Agreement, (ii) the Loan under the Loan and Security Agreement, as has been, is being, and may further be amended, restated, extended and/or modified from time to time, is secured by his respective Guaranty, and (iii) he makes such reaffirmation with full knowledge of the terms thereof.

ATTEST: TEAMSTAFF SOLUTIONS, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

ADDRESS: 245 FIFTH AVENUE  
NEW YORK, NY

ATTEST: DSI STAFF CONNXIONS NORTHEAST, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 300 ATRIUM DRIVE  
SOMERSET, NJ 08873

ATTEST: DSI STAFF CONNXIONS SOUTHWEST, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 2 NORTHPOINT DRIVE  
HOUSTON, TX

ATTEST: TEAMSTAFF RX, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 1901 ULMERTON ROAD  
CLEARWATER, FL

ATTEST: TEAMSTAFF I, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 1901 ULMERTON ROAD  
CLEARWATER, FL

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF II, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 1901 ULMERTON ROAD  
CLEARWATER, FL

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF III, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 1901 ULMERTON ROAD  
CLEARWATER, FL

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF IV, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 1901 ULMERTON ROAD  
CLEARWATER, FL

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF V, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 1901 ULMERTON ROAD  
CLEARWATER, FL

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF VI, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 1901 ULMERTON ROAD  
CLEARWATER, FL

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF VIII, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 1901 ULMERTON ROAD  
CLEARWATER, FL



ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF IX, INC.

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 1901 ULMERTON ROAD  
CLEARWATER, FL

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF INSURANCE SERVICES, INC.

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 1901 ULMERTON ROAD  
CLEARWATER, FL

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

EMPLOYER SUPPORT SERVICES, INC.

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 1901 ULMERTON ROAD  
CLEARWATER, FL

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

HR2, INC.

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 800 WEST CUMMINGS PARK  
WOBURN, MA 01801

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BRIGHTLANE.COM, INC.

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 3650 MANSELL ROAD  
ALPHARETTA, GA 30022

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

DIGITAL INSURANCE SERVICES, INC.

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER

ADDRESS: 300 ATRIUM DRIVE  
SOMERSET, NJ 08873

Dated: March 31, 2003

## SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT entered into this 14th day of May, 2003 by and among TEAMSTAFF, INC. (the "Borrower"), a corporation incorporated under the laws of the State of New Jersey, having its principal office at 300 Atrium Drive, Somerset, New Jersey 08873, TeamStaff Solutions, Inc, DSI Staff Connxions Northeast, Inc., DSI Staff Connxions Southwest, Inc., TeamStaff Rx, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff V, Inc., TeamStaff VI, Inc., TeamStaff VIII, Inc., TeamStaff IX, Inc., TeamStaff Insurance Services, Inc., Employer Support Services, Inc., HR2, Inc., BrightLane.com, Inc., Digital Insurance Services, Inc. (collectively, the "Guarantors") with respective addresses as shown on Schedule 5.13 hereof and FLEET NATIONAL BANK (the "Bank"), a national bank association organized under the laws of the United States of America, having an office at 750 Walnut Avenue, Cranford, New Jersey 07016.

## W I T N E S S E T H:

WHEREAS, the Bank Guarantors and the Borrower have previously entered into a commercial lending arrangement in accordance with the terms and conditions of a certain Loan and Security Agreement dated April 9, 2002 as amended by a First Amendment to Loan and Security Agreement dated March 21, 2003 (the "Agreement");

WHEREAS, on April 9, 2002, the "Guarantors" each executed in favor of the Lender a certain Continuing Unlimited and Collateralized Guaranty as ratified by a Guarantors Ratification dated March 21, 2003 (the "Guaranty") pursuant to which the Guarantors each guaranteed the Loan of the Borrower to the Bank;

WHEREAS, the Lender and the Borrower seek to memorialize the modifications to the Agreement by this writing.

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements herein contained, and other good and valuable consideration, receipt of which is hereby acknowledged, it is agreed as follows:

1. Section 1, Definitions of the Agreement is hereby modified to delete the definition of Interest Coverage Ratio and a new definition of EBIT less Intangible Write Down Expense is substituted therefore to read as follows:

"EBIT less Intangible Write Down Expense": Net Income less Tax Expense less Interest Expense less Intangible Write Down Expense Covenant Test on Quarter by Quarter Basis.

2. Subsections 6.23(n) of the Agreement is waived for the quarter ended 3/31/03 and going forward is hereby deleted and new Subsections 6.23(n) is substituted therefor to read as follows:

(n) EBIT Less Intangible Write Down Expense. Cause, suffer or permit the Obligors' EBIT less Intangible Write Down Expense to be less than the following test period required minimum as follows:

## Test Period Required Minimum

QE 6/30/2003	-\$100,000.00
QE 9/30/2003	\$500,000.00
QE 12/31/2003	\$600,000.00
QE 3/31/2004	\$800,000.00
QE 6/30/2004 and thereafter	\$900,000.00

3. Upon execution of this Amendment, the Borrower shall deliver the following to the Bank: (a) Bank fee of \$7,500.00, (b) Bank's legal fee, (c) this Amendment properly executed, (d) the Guarantors' Ratification properly executed, (e) within 45 days from the date hereof an executed opinion of Borrower's counsel in form and

substance satisfactory to Bank, and (f) such other materials reasonably required by the Bank. It is understood and agreed that Borrower shall pay all fees and costs incurred by Bank in entering into this Amendment and the other documents executed in connection herewith, including but not limited to all reasonable attorney fees and expenses of Bank's counsel.

4. All of the remaining terms and conditions of the Agreement shall remain in full force and effect as though set forth herein at length to the extent not inconsistent with the terms of this Amendment, and any term in initial capital letters not otherwise defined herein shall have the meaning ascribed thereto in the Agreement.

IN WITNESS WHEREOF, the parties hereunto set their hands and seals or caused these presents to be signed by their respective corporate officers and the proper corporate seal to be affixed hereto the day and year first above mentioned.

ATTEST: TEAMSTAFF, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST: TEAMSTAFF SOLUTIONS, INC

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

ATTEST: DSI STAFF CONNXIONS NORTHEAST, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICE

ATTEST: DSI STAFF CONNXIONS SOUTHWEST, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST: TEAMSTAFF RX, INC.

\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF I, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF II, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF III, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF IV, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICE

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF V, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF VI, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF VIII, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF IX, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

TEAMSTAFF INSURANCE SERVICES, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

EMPLOYER SUPPORT SERVICES, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

HR2, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

BRIGHTLANE.COM, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

ATTEST:  
  
\_\_\_\_\_  
GERARD A. ROMANO, CONTROLLER

DIGITAL INSURANCE SERVICES, INC.  
  
BY: \_\_\_\_\_  
DONALD W. KAPPAUF, CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

FLEET NATIONAL BANK  
  
BY: \_\_\_\_\_  
AVIS SPANN, VICE PRESIDENT

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of TeamStaff, Inc (the Company) on Form 10-Q for the period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, being, Donald W. Kappauf, Chief Executive Officer of the Company, and Gerard A. Romano, Controller of the Company, respectively, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2003

/s/ Donald W. Kappauf  
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Chief Executive Officer

/s/ Gerard A. Romano  
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Corporate Controller